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Section 1: 10-Q (FORM 10-Q)

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United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2016

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 1-9583

MBIA INC.
(Exact name of registrant as specified in its charter)

Connecticut (State of incorporation)	**06-1185706** (I.R.S. Employer Identification No.)
1 Manhattanville Road, Suite 301, Purchase, New York (Address of principal executive offices)	**10577** (Zip Code)

(914) 273-4545
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

As of November 2, 2016, 135,741,783 shares of Common Stock, par value $1 per share, were outstanding.

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FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report of MBIA Inc., together with its consolidated subsidiaries, (collectively, “MBIA”, the “Company”, “we”, “us” or “our”) includes statements that are not historical or current facts and are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The words “believe”, “anticipate”, “project”, “plan”, “expect”, “estimate”, “intend”, “will likely result”, “looking forward”, or “will continue” and similar expressions identify forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. MBIA cautions readers not to place undue reliance on any such forward-looking statements, which speak only to their respective dates. We undertake no obligation to publicly correct or update any forward-looking statement if the Company later becomes aware that such result is not likely to be achieved.

The following are some of the general factors that could affect financial performance or could cause actual results to differ materially from estimates contained in or underlying the Company’s forward-looking statements:

- increased credit losses or impairments on public finance obligations that National Public Finance Guarantee Corporation (“National”) insures issued by state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that are experiencing fiscal stress;
- the possibility that loss reserve estimates are not adequate to cover potential claims;
- a disruption in the cash flow from our subsidiaries or an inability to access the capital markets and our exposure to significant fluctuations in liquidity and asset values in the global credit markets as a result of collateral posting requirements;
- our ability to fully implement our strategic plan, including our ability to maintain high stable credit ratings for National and generate investor demand for our financial guarantees;
- the possibility that MBIA Insurance Corporation will have inadequate liquidity or resources to timely pay claims as a result of higher than expected losses on certain structured finance transactions or as a result of a delay or failure in collecting expected recoveries, which could lead the New York State Department of Financial Services (“NYSDFS”) to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation’s policyholders;
- deterioration in the economic environment and financial markets in the United States or abroad, real estate market performance, credit spreads, interest rates and foreign currency levels; and
- the effects of changes to governmental regulation, including insurance laws, securities laws, tax laws, legal precedents and accounting rules.

The above factors provide a summary of and are qualified in their entirety by the risk factors discussed under “Risk Factors” in Part I, Item 1A of MBIA Inc.’s Annual Report on Form 10-K for the year ended December 31, 2015. In addition, refer to “Risk Factors” in Part II, Item 1A and “Note 1: Business Developments and Risks and Uncertainties” in the Notes to Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a discussion of certain risks and uncertainties related to our financial statements.

This quarterly report of MBIA Inc. also includes statements of the opinion and belief of MBIA management which may be forward-looking statements subject to the preceding cautionary disclosure. Unless otherwise indicated herein, the basis for each statement of opinion or belief of MBIA management in this report is the relevant industry or subject matter experience and views of certain members of MBIA’s management. Accordingly, MBIA cautions readers not to place undue reliance on any such statements, because like all statements of opinion or belief they are not statements of fact and may prove to be incorrect. We undertake no obligation to publicly correct or update any statement of opinion or belief if the Company later becomes aware that such statement of opinion or belief was not or is not then accurate. In addition, readers are cautioned that each statement of opinion or belief may be further qualified by disclosures set forth elsewhere in this report or in other disclosures by MBIA.

PART 1 FINANCIAL INFORMATION

Item 1. Financial Statements

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Unaudited)
(In millions except share and per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Investments:		
Fixed-maturity securities held as available-for-sale, at fair value (amortized cost $5,131 and $5,155)	$ 5,295	$ 5,145
Investments carried at fair value	73	177
Investments pledged as collateral, at fair value (amortized cost $231 and $322)	227	291
Short-term investments held as available-for-sale, at fair value (amortized cost $756 and $720)	756	721
Other investments (includes investments at fair value of $6 and $13)	9	16
Total investments	6,360	6,350
Cash and cash equivalents	191	464
Premiums receivable	707	792
Deferred acquisition costs	137	168
Insurance loss recoverable	528	577
Deferred income taxes, net	963	951
Other assets	143	156
Assets of consolidated variable interest entities:		
Cash	25	58
Investments held-to-maturity, at amortized cost (fair value $573 and $2,401)	890	2,689
Fixed-maturity securities at fair value	270	932
Loans receivable at fair value	1,142	1,292
Loan repurchase commitments	404	396
Other assets	27	11
Total assets	**$ 11,787**	**$ 14,836**
Liabilities and Equity		
Liabilities:		
Unearned premium revenue	$ 1,344	$ 1,591
Loss and loss adjustment expense reserves	513	516
Long-term debt	1,975	1,889
Medium-term notes (includes financial instruments carried at fair value of $106 and $161)	932	1,016
Investment agreements	418	462
Derivative liabilities	383	314
Other liabilities	229	211
Liabilities of consolidated variable interest entities:		
Variable interest entity notes (includes financial instruments carried at fair value of $1,433 and $2,362)	2,323	5,051
Derivative liabilities	-	45
Total liabilities	**8,117**	**11,095**
Commitments and contingencies (Refer to Note 13)		
Equity:		
Preferred stock, par value $1 per share; authorized shares—10,000,000; issued and outstanding—none	-	-
Common stock, par value $1 per share; authorized shares—400,000,000; issued shares—283,529,999 and 281,833,618	284	282
Additional paid-in capital	3,153	3,138
Retained earnings	2,965	3,038
Accumulated other comprehensive income (loss), net of tax of $2 and $51	35	(61)
Treasury stock, at cost—147,806,592 and 130,303,241 shares	(2,779)	(2,668)
Total shareholders' equity of MBIA Inc.	3,658	3,729
Preferred stock of subsidiary	12	12
Total equity	**3,670**	**3,741**
Total liabilities and equity	**$ 11,787**	**$ 14,836**

The accompanying notes are an integral part of the consolidated financial statements.

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In millions except share and per share amounts)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenues:				
Premiums earned:				
Scheduled premiums earned	$ 42	$ 47	$ 131	$ 153
Refunding premiums earned	35	37	94	123
Premiums earned (net of ceded premiums of $2, $2, $5 and $7)	77	84	225	276
Net investment income	39	38	115	112
Fees and reimbursements	22	1	24	4
Change in fair value of insured derivatives:				
Realized gains (losses) and other settlements on insured derivatives	(4)	(18)	(20)	(30)
Unrealized gains (losses) on insured derivatives	20	21	-	121
Net change in fair value of insured derivatives	16	3	(20)	91
Net gains (losses) on financial instruments at fair value and foreign exchange	38	(55)	(17)	20
Net investment losses related to other-than-temporary impairments:				
Investment losses related to other-than-temporary impairments	-	(1)	(1)	(10)
Other-than-temporary impairments recognized in accumulated other comprehensive income (loss)	-	(2)	-	-
Net investment losses related to other-than-temporary impairments	-	(3)	(1)	(10)
Net gains (losses) on extinguishment of debt	-	-	5	(1)
Other net realized gains (losses)	(2)	(1)	(3)	18
Revenues of consolidated variable interest entities:				
Net investment income	5	12	25	37
Net gains (losses) on financial instruments at fair value and foreign exchange	8	13	-	9
Total revenues	203	92	353	556
Expenses:				
Losses and loss adjustment	50	39	149	79
Amortization of deferred acquisition costs	10	11	30	37
Operating	32	35	97	102
Interest	49	49	148	149
Expenses of consolidated variable interest entities:				
Operating	3	3	10	10
Interest	4	10	20	29
Total expenses	148	147	454	406
Income (loss) before income taxes	55	(55)	(101)	150
Provision (benefit) for income taxes	24	(20)	(28)	52
Net income (loss)	**$ 31**	**$ (35)**	**$ (73)**	**$ 98**
Net income (loss) per common share:				
Basic	$ 0.23	$ (0.23)	$ (0.55)	$ 0.56
Diluted	$ 0.23	$ (0.23)	$ (0.55)	$ 0.55
Weighted average number of common shares outstanding:				
Basic	131,633,411	155,239,723	133,368,752	169,610,370
Diluted	132,042,067	155,239,723	133,368,752	170,566,386

The accompanying notes are an integral part of the consolidated financial statements.

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income (loss)	$ 31	$ (35)	$ (73)	$ 98
Other comprehensive income (loss):				
Unrealized gains (losses) on available-for-sale securities:				
Unrealized gains (losses) arising during the period	(20)	51	204	(35)
Provision (benefit) for income taxes	(7)	19	72	(11)
Total	(13)	32	132	(24)
Reclassification adjustments for (gains) losses included in net income (loss)	(1)	6	7	10
Provision (benefit) for income taxes	(1)	1	2	3
Total	-	5	5	7
Available-for-sale securities with other-than-temporary impairments:				
Other-than-temporary impairments and unrealized gains (losses) arising during the period	-	(1)	7	(5)
Provision (benefit) for income taxes	-	(1)	2	(2)
Total	-	-	5	(3)
Reclassification adjustments for (gains) losses included in net income (loss)	-	3	-	3
Provision (benefit) for income taxes	-	1	-	1
Total	-	2	-	2
Foreign currency translation:				
Foreign currency translation gains (losses)	(15)	(18)	(70)	(19)
Provision (benefit) for income taxes	(5)	(5)	(24)	(6)
Total	(10)	(13)	(46)	(13)
Total other comprehensive income (loss)	(23)	26	96	(31)
Comprehensive income (loss)	**$ 8**	**$ (9)**	**$ 23**	**$ 67**

The accompanying notes are an integral part of the consolidated financial statements.

MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (Unaudited)
For The Nine Months Ended September 30, 2016
(In millions except share amounts)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Shareholders' Equity of MBIA Inc.	Preferred Stock of Subsidiary		Total Equity
	Shares	Amount				Shares	Amount		Shares	Amount	
Balance, December 31, 2015	**281,833,618**	**$ 282**	**$ 3,138**	**$3,038**	**$ (61)**	**(130,303,241)**	**$(2,668)**	**$ 3,729**	**1,315**	**$ 12**	**$3,741**
Net income (loss)	-	-	-	(73)	-	-	-	(73)	-	-	(73)
Other comprehensive income (loss)	-	-	-	-	96	-	-	96	-	-	96
Share-based compensation	1,696,381	2	15	-	-	(943,414)	(6)	11	-	-	11
Treasury shares acquired under share repurchase program	-	-	-	-	-	(16,559,937)	(105)	(105)	-	-	(105)
Balance, September 30, 2016	**283,529,999**	**$ 284**	**$ 3,153**	**$2,965**	**$ 35**	**(147,806,592)**	**$(2,779)**	**$ 3,658**	**1,315**	**$ 12**	**$3,670**

The accompanying notes are an integral part of the consolidated financial statements.

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MBIA INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(In millions)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Premiums, fees and reimbursements received	$ 87	$ 66
Investment income received	249	263
Insured derivative commutations and losses paid	(24)	(42)
Financial guarantee losses and loss adjustment expenses paid	(324)	(68)
Proceeds from recoveries and reinsurance	88	61
Operating and employee related expenses paid	(99)	(99)
Interest paid, net of interest converted to principal	(102)	(130)
Income taxes (paid) received	(4)	(9)
Net cash provided (used) by operating activities	(129)	42
Cash flows from investing activities:		
Purchases of available-for-sale investments	(2,112)	(1,497)
Sales of available-for-sale investments	1,785	630
Paydowns and maturities of available-for-sale investments	410	463
Purchases of investments at fair value	(88)	(324)
Sales, paydowns and maturities of investments at fair value	197	447
Sales, paydowns and maturities (purchases) of short-term investments, net	90	582
Sales, paydowns and maturities of held-to-maturity investments	1,799	50
Sales, paydowns and maturities of other investments	1	-
Paydowns and maturities of loans receivable	188	172
Consolidation of variable interest entities	1	7
(Payments) proceeds for derivative settlements	(36)	33
Collateral (to) from swap counterparty	10	(64)
Capital expenditures	(1)	(3)
Other investing	(8)	47
Net cash provided (used) by investing activities	2,236	543
Cash flows from financing activities:		
Proceeds from investment agreements	17	21
Principal paydowns of investment agreements	(63)	(88)
Principal paydowns of medium-term notes	(122)	(116)
Principal paydowns of variable interest entity notes	(2,136)	(392)
Principal paydowns of long-term debt	-	(11)
Purchases of treasury stock	(108)	(300)
Net cash provided (used) by financing activities	(2,412)	(886)
Effect of exchange rate changes on cash and cash equivalents	(1)	11
Net increase (decrease) in cash and cash equivalents	(306)	(290)
Cash and cash equivalents—beginning of period	522	782
Cash and cash equivalents—end of period	$ 216	$ 492
Reconciliation of net income (loss) to net cash provided (used) by operating activities:		
Net income (loss)	$ (73)	$ 98
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Change in:		
Premiums receivable	61	63
Deferred acquisition costs	31	35
Unearned premium revenue	(197)	(274)
Loss and loss adjustment expense reserves	(1)	(24)
Insurance loss recoverable	(98)	96
Accrued interest payable	82	78
Accrued expenses	4	-
Unrealized (gains) losses on insured derivatives	-	(121)
Net (gains) losses on financial instruments at fair value and foreign exchange	17	(29)
Other net realized (gains) losses	3	(18)
Deferred income tax provision (benefit)	(33)	50
Interest on variable interest entities, net	45	51
Other operating	30	37
Total adjustments to net income (loss)	(56)	(56)
Net cash provided (used) by operating activities	$ (129)	$ 42

The accompanying notes are an integral part of the consolidated financial statements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties

Summary

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA" or the "Company") operates one of the largest financial guarantee insurance businesses in the industry. MBIA manages three operating segments: 1) United States ("U.S.") public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company's U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation ("National") and its international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."). Unless otherwise indicated or the context otherwise requires, references to "MBIA Corp." are to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited ("MBIA UK") and MBIA Mexico S.A. de C.V ("MBIA Mexico").

Business Developments

Sale of MBIA UK and Cutwater

In September of 2016, MBIA Insurance Corporation announced that its wholly-owned subsidiary, MBIA UK (Holdings) Limited, entered into an agreement to sell MBIA UK to Assured Guaranty Corp. ("Assured"), a subsidiary of Assured Guaranty Ltd. (the "Sale Transaction"). The Sale Transaction consists of the transfer to the Company of notes issued by Zohar II 2005-1, Limited ("Zohar II") collateralized debt obligation ("CDO"), (the "Zohar II Notes"), with an aggregate outstanding principal amount of approximately $347 million (the "Assured Zohar II Notes"), in exchange for the shares of MBIA UK and a cash payment to Assured of $23 million. The Sale Transaction is subject to certain closing conditions, including the receipt of regulatory approvals from the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") of the United Kingdom, the New York State Department of Financial Services ("NYSDFS") and the Maryland Insurance Administration.

The sale of MBIA UK is part of MBIA Corp.'s strategy to address the maturity of the Zohar II Notes on January 20, 2017 (the "Zohar Maturity Date"), which are insured by MBIA Corp. and had $770 million of insured gross par outstanding as of September 30, 2016. MBIA Insurance Corporation expects that on the Zohar Maturity Date, it will be required to pay a claim under its policy for the amount due on the Zohar II Notes (the "Zohar II Claim"). MBIA Insurance Corporation does not expect to have sufficient liquidity to pay such claim on the Zohar II Notes unless it arranges third-party financing to enable it to pay the claim, which it is currently working to arrange. There is no assurance that the Sale Transaction will be completed, that third-party financing will be available, or that MBIA Corp.'s strategies will be successful. Accordingly, closing of this sale is uncertain. Should the Company satisfactorily resolve these uncertainties, the Sale Transaction is scheduled to close in early January of 2017.

Effective on January 1, 2015, the Company exited its advisory services business through the sale of Cutwater Holdings, LLC and its subsidiaries ("Cutwater") to a subsidiary of The Bank of New York Mellon Corporation. Refer to "Note 10: Business Segments" for further information about the Company's operating segments.

National Ratings and New Business Opportunities

National's ability to write new business and compete with other financial guarantors is largely dependent on the financial strength ratings assigned to National by the rating agencies. As of September 30, 2016, National had the following ratings: AA+ with a stable outlook by Kroll Bond Rating Agency; AA- with a stable outlook by Standard & Poor's Financial Services LLC ("S&P"); and A3 with a negative outlook by Moody's Investors Service, Inc. ("Moody's").

National seeks to generate shareholder value through appropriate risk adjusted pricing; however, current market conditions and the competitive landscape may limit National's new business opportunities and its abilities to price and underwrite risk with attractive returns. Refer to "Risks and Uncertainties" below for a discussion of business risks related to National's insured portfolio.

Risks and Uncertainties

The Company's financial statements include estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The outcome of certain significant risks and uncertainties could cause the Company to revise its estimates and assumptions or could cause actual results to differ from the Company's estimates. The discussion below highlights the significant risks and uncertainties that could have a material effect on the Company's financial statements and business objectives in future periods.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties (continued)

U.S. Public Finance Market Conditions

National's insured portfolio continued to perform satisfactorily against a backdrop of strengthening domestic economic activity. While a stable or growing economy will generally benefit tax revenues and fees charged for essential municipal services which secure National's insured bond portfolio, some state and local governments and territory obligors National insures remain under financial and budgetary stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments on a greater number of the Company's insured transactions. The Company monitors and analyzes these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

In particular, the Commonwealth of Puerto Rico is experiencing significant fiscal stress and constrained liquidity due to, among other things, Puerto Rico's structural budget imbalance, limited access to the capital markets, a stagnating local economy, net migration of people out of Puerto Rico and a high debt burden. Although Puerto Rico has tried to address its challenges through various fiscal policies, it continues to experience significant fiscal stress. On July 1, 2016, Puerto Rico defaulted on scheduled debt service for certain National insured bonds and National paid gross claims in the aggregate of $173 million as a result. The Company continues to believe, based on its analysis of Puerto Rico's fiscal and structural circumstances, the details of its insured exposures, and its legal and contractual rights, that all of National's insured Puerto Rico related debt, and any claims National has made thereon, will ultimately be substantially repaid.

MBIA Corp. Insured Portfolio

MBIA Corp.'s primary objectives are to satisfy any claims of its policyholders, and to maximize future recoveries, if any, for its surplus note holders and, thereafter, its preferred stock holders. MBIA Corp. is executing this strategy by reducing and mitigating potential losses on its insurance exposures and pursuing various actions focused on maximizing the collection of recoveries. The Company does not expect to write new business in its international and structured finance insurance segment for the foreseeable future.

MBIA Corp.'s insured portfolio could deteriorate and result in additional significant loss reserves and claim payments. MBIA Corp.'s ability to meet its obligations is limited by available liquidity and its ability to secure additional liquidity through financing and other transactions. There can be no assurance that MBIA Corp. will be successful in generating sufficient cash to meet its obligations.

Zohar

At this time, MBIA Insurance Corporation is particularly focused on the policy it issued on the Zohar II Notes. According to the sponsor and former collateral manager of Zohar II (the "Zohar Sponsor"), the assets of Zohar II include, among other things, loans made to, and equity interests in, companies that the Zohar Sponsor purports to control (the "Zohar II Collateral"). MBIA Insurance Corporation expects that on the Zohar Maturity Date, it will be required to pay a claim under its policy for the Zohar II Claim. MBIA Insurance Corporation does not expect to have sufficient liquidity to pay such claim on the Zohar II Notes unless it arranges third-party financing to enable it to pay the claim.

MBIA Insurance Corporation is currently seeking to arrange third-party financing to increase its liquid assets to ensure that it has sufficient liquidity to pay the Zohar II Claim. MBIA Insurance Corporation's ability to arrange such financing, however, is constrained, and there is no assurance that it will be able to secure financing on acceptable terms. MBIA Insurance Corporation believes that any third-party financing will require approval by the NYSDFS. MBIA Insurance Corporation anticipates that the approval by the NYSDFS of the sale of MBIA UK, described herein, and of any third-party financing, if granted, would be based on (among other things) the NYSDFS concluding that MBIA Insurance Corporation will successfully execute its strategies to meet its obligations on the Zohar II Notes in a manner acceptable to the NYSDFS.

MBIA Insurance Corporation believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to satisfy its obligations under the Zohar II Notes on terms satisfactory to the NYSDFS, while maintaining sufficient assets to readily pay other policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law ("NYIL") and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS. The NYSDFS enjoys broad discretion in this regard, and any determination they may make would not be limited to consideration of the matters described above. No assurance is given as to what action, if any, the NYSDFS may take. MBIA Insurance Corporation has also commenced preparing contingency plans with respect to a potential rehabilitation proceeding in the event that it is unable to restructure the Zohar II Notes or arrange financing to pay the amounts due on the Zohar II Notes on the Zohar Maturity Date, in each case on terms acceptable to MBIA Insurance Corporation.

In the event that MBIA Insurance Corporation makes any payment in respect of the Zohar II Notes, it will be entitled to reimbursement of such payment plus interest. MBIA Insurance Corporation believes that the primary source of such reimbursement will come from the liquidation of the Zohar II Collateral.

In addition, MBIA Insurance Corporation insured the class A-1 and A-2 notes (the "Zohar I Insured Notes") issued by Zohar CDO 2003-1, Limited ("Zohar I"), a high yield corporate CDO, the assets of which also include, among other things, loans made to, and equity interests in, companies purportedly controlled by the Zohar Sponsor (all the assets of Zohar I, the "Zohar I Assets"). The Zohar I Insured Notes matured on November 20, 2015 and, after Zohar I failed to pay the amounts due on the Zohar I Insured Notes, MBIA Insurance Corporation paid a claim of $149 million on such Zohar I Insured Notes. As a result, MBIA Insurance Corporation is entitled to seek reimbursement of such claim plus interest and expenses (the "MBIA Zohar I Claim") from Zohar I and/or to exercise certain rights and remedies to seek recovery of such claim. In connection with the exercise of its rights and remedies, MBIA Insurance Corporation has directed the trustee for Zohar I to commence an auction (the "Auction") of all of the Zohar I Assets. All bids in the Auction are scheduled to be submitted by no later than November 29, 2016. MBIA Insurance Corporation has the right to submit a credit bid in the Auction for some or all of the Zohar I Assets up to the amount of the MBIA Zohar I Claim (the "MBIA Credit Bid"). In the event that any cash bids submitted in the Auction exceeds the MBIA Credit Bid, the Zohar I Assets will be sold for cash, and the cash will be applied pursuant to the Zohar I indenture priority of payments and the amounts remaining after payment of any senior expenses will be distributed to MBIA Insurance Corporation as reimbursement for the MBIA Zohar I Claim. In the event the MBIA Credit Bid is the highest bid submitted in the Auction, the Zohar I Assets will be transferred to MBIA Insurance Corporation in satisfaction of the MBIA Zohar I Claim.

While MBIA Insurance Corporation will seek to recover any payments it makes (plus interest and expenses) with respect to the Zohar I Notes and the Zohar II Notes, there can be no assurance that the value of the Zohar I Assets and/or Zohar II Assets will be sufficient to permit MBIA Insurance Corporation to recover all or substantially all of any such payments.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 1: Business Developments and Risks and Uncertainties (continued)

Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, the Company does not believe that a rehabilitation or liquidation proceeding with respect to MBIA Insurance Corporation would have any significant liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK or MBIA Mexico. Such a proceeding could have material adverse consequences for MBIA Insurance Corporation, including the termination of insured credit default swaps ("CDS") and other derivative contracts for which counterparties may assert market-based claims, the acceleration of debt obligations issued by affiliates and insured by MBIA Insurance Corporation, the loss of control of MBIA Insurance Corporation to a rehabilitator or liquidator, and unplanned costs.

RMBS Recoveries

The amount and timing of projected collections from excess spread from residential mortgage-backed securities ("RMBS") and the put-back recoverable from Credit Suisse Securities (USA) LLC, DLJ Mortgage Capital, Inc., and Select Portfolio Servicing Inc. (collectively, "Credit Suisse") are uncertain. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" for information about MBIA Corp.'s loss reserves and recoveries.

Corporate Liquidity

As of September 30, 2016 and December 31, 2015, the liquidity position of MBIA Inc. was $237 million and $416 million, respectively. The term "liquidity position" refers to cash and liquid assets available for general liquidity purposes. During the nine months ended September 30, 2016, $105 million was released to MBIA Inc. and National paid $73 million for estimated 2016 taxes under the MBIA group's tax sharing agreement and related escrow agreement (the "Tax Escrow Account"). The $105 million released to MBIA Inc. represented National's tax liability under the tax sharing agreement for the 2013 tax year. Subsequent to September 30, 2016, National declared and paid a dividend of $118 million to its ultimate parent, MBIA Inc. Based on the Company's projections of National's dividends, payments into the Tax Escrow Account, and other cash inflows, the Company expects that MBIA Inc. will have sufficient cash to satisfy its debt service and general corporate needs. However, MBIA Inc. continues to have liquidity risk which could be triggered by deterioration in the performance of invested assets, interruption of or reduction in dividends or tax payments received from operating subsidiaries, impaired access to the capital markets, as well as other factors which cannot be anticipated at this time. Furthermore, failure by MBIA Inc. to settle liabilities that are also insured by MBIA Corp. could result in claims on MBIA Corp.

Note 2: Significant Accounting Policies

The Company has disclosed its significant accounting policies in "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. The following significant accounting policies provide an update to those included in the Company's Annual Report on Form 10-K.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America ("GAAP") for annual periods. These statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2015. The accompanying consolidated financial statements have not been audited by an independent registered public accounting firm in accordance with the standards of the Public Company Accounting Oversight Board (U.S.), but in the opinion of management such financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for the fair statement of the Company's consolidated financial position and results of operations. All material intercompany balances and transactions have been eliminated.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. As additional information becomes available or actual amounts become determinable, the recorded estimates are revised and reflected in operating results.

The results of operations for the three and nine months ended September 30, 2016 may not be indicative of the results that may be expected for the year ending December 31, 2016. The December 31, 2015 consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by GAAP for annual periods. Certain amounts have been reclassified in the prior year's financial statements to conform to the current presentation. Such reclassifications did not materially impact total revenues, expenses, assets, liabilities, shareholders' equity, operating cash flows, investing cash flows, or financing cash flows for all periods presented.

Note 3: Recent Accounting Pronouncements

Recently Adopted Accounting Standards

Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (A Consensus of the FASB Emerging Issues Task Force) (ASU 2014-12)

In June of 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-12, "Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." ASU 2014-12 requires that a performance target that affects vesting of share-based payment awards and that could be achieved after an employee's requisite service period be accounted for as a performance condition. ASU 2014-12 was effective for interim and annual periods beginning January 1, 2016. The adoption of ASU 2014-12 did not affect the Company's consolidated financial statements.

Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity (ASU 2014-13)

In August of 2014, the FASB issued ASU 2014-13, "Consolidation (Topic 810): Measuring the Financial Assets and the Financial Liabilities of a Consolidated Collateralized Financing Entity." ASU 2014-13 applies to a consolidated collateralized financing entity defined as a consolidated variable interest entity ("VIE") that holds financial assets and issues beneficial interests in those financial assets that are classified as financial liabilities. The Company may elect to measure the financial assets and the financial liabilities of a consolidated collateralized financing entity using a measurement alternative provided in ASU 2014-13. The measurement alternative requires both the financial assets and the financial liabilities of the consolidated collateralized financing entity to be measured using the more observable of the fair value of the financial assets and the fair value of the financial liabilities with the changes in fair value recognized to earnings. Upon adoption, a reporting entity may apply the measurement alternative to existing consolidated collateralized financing entities. ASU 2014-13 was effective for interim and annual periods beginning January 1, 2016. The adoption of ASU 2014-13 did not affect the Company's consolidated financial statements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs (ASU 2015-03)

In April of 2015, the FASB issued ASU 2015-03, “Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” ASU 2015-03 requires debt issuance costs related to a debt liability measured at amortized cost to be reported in the balance sheet as a direct deduction from the face amount of the debt liability. ASU 2015-03 was effective for interim and annual periods beginning January 1, 2016. The adoption of ASU 2015-03 was applied retrospectively and all previously reported amounts have been conformed to the current presentation. The adoption of ASU 2015-03 did not materially impact the Company’s consolidated financial statements.

The Company has not adopted any other new accounting pronouncements that had a material impact on its consolidated financial statements.

Recent Accounting Developments

Revenue from Contracts with Customers (Topic 606) (ASU 2014-09) and *Deferral of the Effective Date (ASU 2015-14)*

In May of 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606).” ASU 2014-09 amends the accounting guidance for recognizing revenue for the transfer of goods or services from contracts with customers unless those contracts are within the scope of other accounting standards. ASU 2014-09 does not apply to financial guarantee insurance contracts within the scope of Topic 944, “Financial Services — Insurance.” In August of 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606) — Deferral of the Effective Date.” ASU 2015-14 defers the effective date of ASU 2014-09 to interim and annual periods beginning January 1, 2018, and is applied on a retrospective or modified retrospective basis. The adoption of ASU 2014-09 is not expected to materially impact the Company’s consolidated financial statements.

Presentation of Financial Statements—Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern (ASU 2014-15)

In August of 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” ASU 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern, and to provide certain disclosures when it is probable that the entity will be unable to meet its obligations as they become due within one year after the date that the financial statements are issued. ASU 2014-15 is effective for the annual period ending December 31, 2016 and for annual periods and interim periods thereafter with early adoption permitted. The adoption of ASU 2014-15 is not expected to materially impact the Company’s consolidated financial statements.

Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities (ASU 2016-01)

In January of 2016, the FASB issued ASU 2016-01, “Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” ASU 2016-01 requires certain equity investments other than those accounted for under the equity method of accounting or result in consolidation of the investee to be measured at fair value with changes in fair value recognized in net income, and permits an entity to measure equity investments that do not have readily determinable fair values at cost less any impairment plus or minus adjustments for certain changes in observable prices. An entity is also required to evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale (“AFS”) debt securities in combination with the entity’s other deferred tax assets. ASU 2016-01 requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability that results from a change in the instrument-specific credit risk for financial liabilities that the entity has elected to measure at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for interim and annual periods beginning January 1, 2018, and is applied on a modified retrospective basis. Early adoption is not permitted with the exception of early application of the guidance that requires separate presentation in other comprehensive income of the change in the instrument-specific credit risk for financial liabilities measured at fair value in accordance with the fair value option is permitted as of the beginning of the fiscal year of adoption of the standard. The Company is evaluating the impact of adopting ASU 2016-01.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 3: Recent Accounting Pronouncements (continued)

Leases (Topic 842) (ASU 2016-02)

In February of 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" that amends the accounting guidance for leasing transactions. ASU 2016-02 requires a lessee to classify lease contracts as finance or operating leases, and to recognize assets and liabilities for the rights and obligations created by leasing transactions with lease terms more than twelve months. ASU 2016-02 substantially retains the criteria for classifying leasing transactions as finance or operating leases. For finance leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments, and recognizes interest expense on the lease liability separately from the amortization of the right-of-use asset. For operating leases, a lessee recognizes a right-of-use asset and a lease liability initially measured at the present value of the lease payments, and recognizes lease expense on a straight-line basis. ASU 2016-02 is effective for interim and annual periods beginning January 1, 2019 with early adoption permitted, and is applied on a modified retrospective basis. The adoption of ASU 2016-02 is not expected to materially impact the Company's consolidated financial statements.

Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-13)

In June of 2016, the FASB issued ASU 2016-13, "Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." ASU 2016-13 requires financing receivables and other financial assets measured at amortized cost basis to be presented at the net amount expected to be collected by recording an allowance for credit losses with changes in the allowance recorded as credit loss expense or reversal of credit loss expense based on management's current estimate of expected credit losses each period. ASU 2016-13 does not apply to credit losses on financial guarantee insurance contracts within the scope of Topic 944, "Financial Services-Insurance." ASU 2016-13 also requires impairment relating to credit losses on AFS debt securities to be presented through an allowance for credit losses with changes in the allowance recorded in the period of the change as credit loss expense or reversal of credit loss expense. Any impairment amount not recorded through an allowance for credit losses on AFS debt securities is recorded through other comprehensive income. ASU 2016-13 is effective for interim and annual periods beginning January 1, 2020 with early adoption permitted beginning January 1, 2019. ASU 2016-13 is applied on a modified retrospective basis except that prospective application is applied to AFS debt securities with other-than-temporary impairments ("OTTI") recognized before the date of adoption. The Company is evaluating the impact of adopting ASU 2016-13.

Note 4: Variable Interest Entities

Through MBIA's international and structured finance insurance segment, the Company provides credit protection to issuers of obligations that may involve issuer-sponsored special purpose entities ("SPEs"). An SPE may be considered a VIE to the extent the SPE's total equity at risk is not sufficient to permit the SPE to finance its activities without additional subordinated financial support or its equity investors lack any one of the following characteristics: (i) the power to direct the activities of the SPE that most significantly impact the entity's economic performance or (ii) the obligation to absorb the expected losses of the entity or the right to receive the expected residual returns of the entity. A holder of a variable interest or interests in a VIE is required to assess whether it has a controlling financial interest, and thus is required to consolidate the entity as primary beneficiary. An assessment of a controlling financial interest identifies the primary beneficiary as the variable interest holder that has both of the following characteristics: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance and (ii) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE. The primary beneficiary is required to consolidate the VIE. An ongoing reassessment of controlling financial interest is required to be performed based on any substantive changes in facts and circumstances involving the VIE and its variable interests.

The Company evaluates issuer-sponsored SPEs initially to determine if an entity is a VIE, and is required to reconsider its initial determination if certain events occur. For all entities determined to be VIEs, MBIA performs an ongoing reassessment to determine whether its guarantee to provide credit protection on obligations issued by VIEs provides the Company with a controlling financial interest. Based on its ongoing reassessment of controlling financial interest, the Company determines whether a VIE is required to be consolidated or deconsolidated.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

The Company makes its determination for consolidation based on a qualitative assessment of the purpose and design of a VIE, the terms and characteristics of variable interests of an entity, and the risks a VIE is designed to create and pass through to holders of variable interests. The Company generally provides credit protection on obligations issued by VIEs, and holds certain contractual rights according to the purpose and design of a VIE. The Company may have the ability to direct certain activities of a VIE depending on facts and circumstances, including the occurrence of certain contingent events, and these activities may be considered the activities of a VIE that most significantly impact the entity's economic performance. The Company generally considers its guarantee of principal and interest payments of insured obligations, given nonperformance by a VIE, to be an obligation to absorb losses of the entity that could potentially be significant to the VIE. At the time the Company determines it has the ability to direct the activities of a VIE that most significantly impact the economic performance of the entity based on facts and circumstances, MBIA is deemed to have a controlling financial interest in the VIE and is required to consolidate the entity as primary beneficiary. The Company performs an ongoing reassessment of controlling financial interest that may result in consolidation or deconsolidation of any VIE.

Nonconsolidated VIEs

Insurance

The following tables present the total assets of nonconsolidated VIEs in which the Company holds a variable interest as of September 30, 2016 and December 31, 2015, through its insurance operations. The following tables also present the Company's maximum exposure to loss for nonconsolidated VIEs and carrying values of the assets and liabilities for its interests in these VIEs as of September 30, 2016 and December 31, 2015. The Company has aggregated nonconsolidated VIEs based on the underlying credit exposure of the insured obligation. The nature of the Company's variable interests in nonconsolidated VIEs is related to financial guarantees, insured CDS contracts and any investments in obligations issued by nonconsolidated VIEs.

	September 30, 2016							
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)	Derivative Liabilities(6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 3,487	$ 2,095	$ 49	$ 3	$ -	$ 1	$ 58	$ 1
Mortgage-backed residential	9,857	5,085	22	28	347	27	339	-
Mortgage-backed commercial	270	158	-	-	-	-	-	-
Consumer asset-backed	5,021	1,397	-	7	1	6	7	-
Corporate asset-backed	3,560	2,517	4	21	-	23	-	-
Total global structured finance	22,195	11,252	75	59	348	57	404	1
Global public finance	44,313	12,802	-	143	-	161	-	-
Total insurance	$66,508	$ 24,054	$ 75	$ 202	$ 348	$ 218	$ 404	$ 1

(1) - Reported within "Investments" on MBIA's consolidated balance sheets.

(2) - Reported within "Premiums receivable" on MBIA's consolidated balance sheets.

(3) - Reported within "Insurance loss recoverable" on MBIA's consolidated balance sheets.

(4) - Reported within "Unearned premium revenue" on MBIA's consolidated balance sheets.

(5) - Reported within "Loss and loss adjustment expense reserves" on MBIA's consolidated balance sheets.

(6) - Reported within "Derivative liabilities" on MBIA's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 4: Variable Interest Entities (continued)

			December 31, 2015					
			Carrying Value of Assets			Carrying Value of Liabilities		
In millions	VIE Assets	Maximum Exposure to Loss	Investments(1)	Premiums Receivable(2)	Insurance Loss Recoverable(3)	Unearned Premium Revenue(4)	Loss and Loss Adjustment Expense Reserves(5)	Derivative Liabilities(6)
Insurance:								
Global structured finance:								
Collateralized debt obligations	$ 5,712	$ 3,046	$ 51	$ 9	$ -	$ 6	$ 108	$ 6
Mortgage-backed residential	11,524	6,072	23	31	416	30	306	-
Mortgage-backed commercial	319	219	-	1	-	1	-	-
Consumer asset-backed	5,538	1,712	-	13	-	11	4	-
Corporate asset-backed	5,218	3,446	-	26	2	30	-	-
Total global structured finance	28,311	14,495	74	80	418	78	418	6
Global public finance	44,162	14,579	-	160	-	186	-	-
Total insurance	$72,473	$ 29,074	$ 74	$ 240	$ 418	$ 264	$ 418	$ 6

(1) - Reported within "Investments" on MBIA's consolidated balance sheets.

(2) - Reported within "Premiums receivable" on MBIA's consolidated balance sheets.

(3) - Reported within "Insurance loss recoverable" on MBIA's consolidated balance sheets.

(4) - Reported within "Unearned premium revenue" on MBIA's consolidated balance sheets.

(5) - Reported within "Loss and loss adjustment expense reserves" on MBIA's consolidated balance sheets.

(6) - Reported within "Derivative liabilities" on MBIA's consolidated balance sheets.

The maximum exposure to loss as a result of MBIA's variable interests in VIEs is represented by insurance in force. Insurance in force is the maximum future payments of principal and interest which may be required under commitments to make payments on insured obligations issued by nonconsolidated VIEs.

Consolidated VIEs

The carrying amounts of assets and liabilities of consolidated VIEs were $2.8 billion and $2.3 billion, respectively, as of September 30, 2016, and $5.4 billion and $5.1 billion, respectively, as of December 31, 2015. The carrying amounts of assets and liabilities are presented separately in "Assets of consolidated variable interest entities" and "Liabilities of consolidated variable interest entities" on the Company's consolidated balance sheets. VIEs are consolidated or deconsolidated based on an ongoing reassessment of controlling financial interest, when events occur or circumstances arise, and whether the ability to exercise rights that constitute power to direct activities of any VIEs are present according to the design and characteristics of these entities. One additional VIE was consolidated during the nine months ended September 30, 2016 and one additional VIE was consolidated during the nine months ended September 30, 2015.

Holders of insured obligations of issuer-sponsored VIEs related to the Company's international and structured finance insurance segment do not have recourse to the general assets of MBIA. In the event of nonpayment of an insured obligation issued by a consolidated VIE, the Company is obligated to pay principal and interest, when due, on the respective insured obligation only. The Company's exposure to consolidated VIEs is limited to the credit protection provided on insured obligations and any additional variable interests held by MBIA.

Note 5: Loss and Loss Adjustment Expense Reserves

Loss and Loss Adjustment Expense Process

U.S. Public Finance Insurance

U.S. public finance insured transactions consist of municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. The Company estimates future losses by using probability-weighted cash flow scenarios that are customized to each insured transaction. Future loss estimates consider debt service due for each insured transaction, which includes par outstanding and interest due, as well as recoveries for such payments, if any. Gross par outstanding for capital appreciation bonds represents the par amount at the time of issuance of the insurance policy.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Certain local governments remain under financial and budgetary stress and a few have filed for protection under the United States Bankruptcy Code, or have entered into state statutory proceedings established to assist municipalities in managing through periods of severe fiscal stress. This could lead to an increase in defaults by such entities on the payment of their obligations and losses or impairments in greater amounts on the Company's insured transactions. The Company monitors and analyzes these situations closely, however, the overall extent and duration of such events are uncertain. Also, the filing for protection under the United States Bankruptcy Code or entering state statutory proceedings does not necessarily result in a default or indicate that an ultimate loss will occur.

International and Structured Finance Insurance

The international and structured finance insurance segment's case basis reserves and insurance loss recoveries recorded in accordance with GAAP do not include estimates for policies insuring credit derivatives or on financial guarantee VIEs that are eliminated in consolidation. Policies insuring credit derivative contracts are accounted for as derivatives and are carried at fair value in the Company's consolidated financial statements under GAAP. The fair values of insured credit derivative contracts are influenced by a variety of market and transaction-specific factors that may be unrelated to potential future claim payments under the Company's insurance policies. In the absence of credit impairments on insured credit derivative contracts or the early termination of such contracts at a loss, the cumulative unrealized losses recorded from these contracts should reverse before or at the maturity of the contracts. As the Company's insured credit derivatives have similar terms, conditions, risks, and economic profiles to its financial guarantee insurance policies, the Company evaluates them for impairment, under Statutory accounting, in the same way that it estimates loss and LAE for its financial guarantee policies. Refer to "Note 8: Derivative Instruments" for a further discussion of the Company's use of derivatives and their impact on the Company's consolidated financial statements.

RMBS Case Basis Reserves (Financial Guarantees)

The Company's RMBS reserves and recoveries relate to financial guarantee insurance policies. The Company's first-lien RMBS case basis reserves primarily relate to RMBS backed by alternative A-paper and subprime mortgage loans. The Company's second-lien RMBS case basis reserves relate to RMBS backed by home equity lines of credit and closed-end second mortgages. The Company calculated RMBS case basis reserves as of September 30, 2016 for both first and second-lien RMBS transactions using a process called the "Roll Rate Methodology." The Roll Rate Methodology is a multi-step process using databases of loan level information, proprietary internal cash flow models, and commercially available models to estimate potential losses and recoveries on insured bonds. Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for additional information on the Company's first and second-lien mortgage loan Roll Rate Methodology.

The Company monitors portfolio performance on a monthly basis against projected performance, reviewing delinquencies, roll rates, and prepayment rates (including voluntary and involuntary). However, loan performance remains difficult to predict and losses may exceed expectations. In the event of a material deviation in actual performance from projected performance, the Company would increase or decrease the case basis reserves accordingly. If actual performance were to remain at the current levels for six additional months compared to the probability-weighted outcome currently used by the Company, the addition to its second-lien case basis reserves would be approximately $26 million.

RMBS Recoveries

The Company primarily records two types of recoveries related to insured RMBS exposures: excess spread that is generated from the trust structures in the insured transactions; and second-lien "put-back" claims related to those mortgage loans whose inclusion in insured securitizations failed to comply with representations and warranties ("ineligible loans").

Excess Spread

Excess spread is generated by performing loans within insured RMBS securitizations and is the difference between interest inflows on mortgage loan collateral and interest outflows on the insured RMBS notes. The amount of excess spread depends on the future loss trends (which include future delinquency trends, average time to charge-off/liquidate delinquent loans, and the availability of pool mortgage insurance), the future spread between Prime and LIBOR interest rates, and borrower refinancing behavior (which may be affected by a continued low interest rate environment) that results in voluntary prepayments. Minor deviations in loss trends and voluntary prepayments may substantially impact the amounts collected from excess spread. Excess spread may also include estimated recoverables from mortgage insurance contracts and subsequent recoveries on charged-off loans associated with the insured RMBS securitizations.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Second-lien Put-Back Claims Related to Ineligible Mortgage Loans

To date, MBIA has settled the majority of the Company's put-back claims. Only its claims against Credit Suisse remain outstanding. To date, settlement amounts have been consistent with the put-back recoveries that had been included in the Company's financial statements at the time preceding the settlement.

The contract claim remaining with Credit Suisse is related to the inclusion of ineligible mortgage loans in the 2007-2 Home Equity Mortgage Trust securitization. Credit Suisse has challenged the Company's assessment of the ineligibility of individual mortgage loans and the dispute is the subject of litigation for which there is no assurance that the Company will prevail.

Based on the Company's assessment of the strength of its contractual put-back rights against Credit Suisse, which it is pursuing through litigation claims, as well as on its prior settlements with other sellers/servicers and success of other monolines' put-back settlements, the Company believes it will prevail in enforcing its contractual rights and that it is entitled to collect the full amount of its incurred losses, which totaled $432 million through September 30, 2016. The Company is also entitled to collect interest on amounts paid; it believes that in context of its put-back litigation, the appropriate interest rate should be the New York State statutory rate. However, the Company currently calculates its put-back recoveries using the contractual interest rate, which is lower than the New York State statutory rate.

Notwithstanding the foregoing, uncertainty remains with respect to the ultimate outcome of the litigation with Credit Suisse, which is contemplated in the probability-weighted cash flow scenario based-modeling the Company uses. The Credit Suisse recovery scenarios are based on the amount of incurred losses measured against certain probabilities of ultimate resolution of the dispute with Credit Suisse. Most of the probability weight is assigned to partial recovery scenarios and are discounted using the current risk-free discount rates associated against the underlying transaction's cash flows.

The Company continues to consider all relevant facts and circumstances in developing its assumptions on expected cash inflows, probability of potential recoveries (including the outcome of litigation) and recovery period. The estimated amount and likelihood of potential recoveries are expected to be revised and supplemented to the extent there are developments in the pending litigation and/or changes to the financial condition of Credit Suisse. While the Company believes it will be successful in realizing its recoveries from its contract claims against Credit Suisse, the ultimate amount recovered may be materially different from that recorded by the Company given the inherent uncertainty of the manner of resolving the claims (i.e., litigation and/or negotiated out-of-court settlement) and the assumptions used in the required estimation process for accounting purposes which are based, in part, on judgments and other information that are not easily corroborated by historical data or other relevant benchmarks.

CDO Reserves

The Company also has loss and LAE reserves on certain transactions within its CDO portfolio, including its multi-sector CDO and high yield corporate CDO asset classes that were insured in the form of financial guarantee policies. MBIA's insured multi-sector CDOs are transactions that include a variety of collateral ranging from corporate bonds to structured finance assets (which includes, but are not limited to, RMBS-related collateral, multi-sector and corporate CDOs). MBIA's high yield corporate CDO portfolio comprises middle-market/special-opportunity corporate loan transactions.

Refer to "Note 6: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for additional information on the Company's loss reserving process including risk-management activities.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Summary of Loss and LAE Reserves and Recoveries

The Company's loss and LAE reserves and recoveries, along with amounts that were eliminated as a result of consolidating VIEs, as of September 30, 2016 and December 31, 2015, are presented in the following table:

In millions	As of September 30, 2016	As of December 31, 2015
U.S. Public Finance Insurance Segment:		
Loss and LAE reserves	$ 72	$ 45
Insurance loss recoverable	174	4
International and Structured Finance Insurance Segment:		
Second-lien RMBS:		
Loss and LAE reserves after VIE elimination	33	51
Loss and LAE reserves VIE elimination	15	16
Excess Spread after VIE elimination(1)	318	406
Excess Spread VIE elimination(2)	63	93
Put-Back Claims(3)	404	396
First-lien RMBS:		
Loss and LAE reserves after VIE elimination	322	277
Loss and LAE reserves VIE elimination	17	5
Excess Spread after VIE elimination(4)	77	80
Excess Spread VIE elimination(5)	21	8
CDOs:		
Loss and LAE reserves after VIE elimination	77	133
Loss and LAE reserves VIE elimination	191	190
Insurance Loss Recoverable after VIE elimination	-	148
Insurance Loss Recoverable VIE elimination	147	-
Other:		
Loss and LAE reserves after VIE elimination	9	10
Loss and LAE reserves VIE elimination	28	-
Insurance Loss Recoverable	5	9

(1) - As of September 30, 2016 and December 31, 2015, $309 million and $382 million were included in "Insurance loss recoverable" and $9 million and $24 million were included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets, respectively.

(2) - As of September 30, 2016 and December 31, 2015, $62 million and $87 million were eliminated from "Insurance loss recoverable" and $1 million and $6 million were eliminated from "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets, respectively.

(3) - Reflected in "Loan repurchase commitments" presented under the heading "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets.

(4) - As of September 30, 2016 and December 31, 2015, $40 million and $34 million were included in "Insurance loss recoverable" and $37 million and $46 million were included in "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets, respectively.

(5) - As of September 30, 2016 and December 31, 2015, $16 million and $8 million were eliminated from "Insurance loss recoverable". As of September 30, 2016, $5 million was eliminated from "Loss and loss adjustment expense reserves" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Changes in Loss and LAE Reserves

The following table presents changes in the Company's loss and LAE reserves for the nine months ended September 30, 2016. Changes in loss and LAE reserves attributable to the accretion of the claim liability discount, changes in discount rates, changes in amount and timing of estimated claim payments and recoveries, changes in assumptions and changes in LAE reserves are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of September 30, 2016, the weighted average risk-free rate used to discount the Company's loss reserves (claim liability) was 1.31%. LAE reserves are generally expected to be settled within a one-year period and are not discounted. As of September 30, 2016 and December 31, 2015, the Company's gross loss and LAE reserves included $54 million and $46 million, respectively, related to LAE.

In millions

Gross Loss and LAE Reserves as of December 31, 2015	Loss Payments for Cases with Reserves	Accretion of Claim Liability Discount	Changes in Discount Rates	Changes in Assumptions	Changes in Unearned Premium Revenue	Changes in LAE Reserves	Other(1)	Gross Loss and LAE Reserves as of September 30, 2016
$ 516	$ (113)	$ 6	$ 31	$ 13	$ (8)	$ 8	$ 60	$ 513

(1) - Primarily changes in the amount and timing of payments.

Changes in Insurance Loss Recoverable and Recoveries on Unpaid Losses

Current period changes in the Company's estimate of potential recoveries may be recorded as an insurance loss recoverable asset, netted against the gross loss and LAE reserve liability, or both. The following table presents changes in the Company's insurance loss recoverable and changes in recoveries on unpaid losses reported within the Company's claim liability for the nine months ended September 30, 2016. Changes in insurance loss recoverable attributable to the accretion of the discount on the recoverable, changes in discount rates, changes in amount and timing of estimated collections, changes in assumptions and changes in LAE recoveries are recorded in "Losses and loss adjustment" expenses in the Company's consolidated statements of operations. As of September 30, 2016 and December 31, 2015, the Company's insurance loss recoverable included $1 million and $6 million, respectively, related to LAE.

In millions	Gross Reserve as of December 31, 2015	Collections for Cases with Recoveries	Accretion of Recoveries	Changes in Discount Rates	Changes in Assumptions	Changes in LAE Recoveries	Other(1)	Gross Reserve as of September 30, 2016
Insurance loss recoverable	$ 577	$ (60)	$ 4	$ 9	$ 58	$ (5)	$ (55)	$ 528
Recoveries on unpaid losses	100	-	1	8	(31)	5	-	83
Total	$ 677	$ (60)	$ 5	$ 17	$ 27	$ -	$ (55)	$ 611

(1) Primarily changes in amount and timing of collections.

The decrease in the Company's insurance loss recoverable and recoveries on unpaid losses during 2016 was primarily due to a decrease in expected future recoveries on CDOs as the result of the consolidation and elimination of a VIE, partially offset by an increase in changes in assumptions on certain Puerto Rico exposures.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Loss and LAE Activity

Financial Guarantee Insurance Losses (Excluding Insured Credit Derivative and Consolidated VIEs)

The Company's financial guarantee insurance losses and LAE, net of reinsurance for the three and nine months ended September 30, 2016 and 2015 are presented in the following table:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
U.S. Public Finance Insurance Segment	$ 28	$ (7)	$ 46	$ (5)
International and Structured Finance Insurance Segment:				
Second-lien RMBS	44	24	78	52
First-lien RMBS	-	18	61	2
CDOs	(23)	5	(46)	39
Other[(1)]	1	(1)	10	(9)
Losses and LAE expense (benefit)	$ 50	$ 39	$ 149	$ 79

(1) - Includes non-U.S. public finance and other issues.

For the three months ended September 30, 2016, losses and LAE primarily related to increases in actual and expected payments on certain Puerto Rico exposures and second-lien RMBS transactions. These were partially offset by increases in recoveries of expected payments on certain Puerto Rico exposures and decreases in expected payments on CDOs.

For the nine months ended September 30, 2016, losses and LAE primarily related to increases in actual and expected payments on certain Puerto Rico exposures and insured first and second-lien RMBS transactions and decreases in projected collections from excess spread within insured second-lien RMBS securitizations. These were partially offset by increases in recoveries of expected payments on certain Puerto Rico exposures and decreases in expected payments on CDOs.

For the three months ended September 30, 2015, losses and LAE primarily related to decreases in projected collections from excess spread within insured second-lien RMBS securitizations and increases in expected payments on first-lien RMBS transactions.

For the nine months ended September 30, 2015, losses and LAE primarily related to decreases in projected collections from excess spread within insured second-lien RMBS securitizations and increases in expected payments on CDOs.

Costs associated with remediating insured obligations assigned to the Company's surveillance categories are recorded as LAE and included in "Losses and loss adjustment" expenses on the Company's consolidated statements of operations. For the three months ended September 30, 2016 and 2015, gross LAE related to remediating insured obligations were $6 million and $5 million, respectively. For the nine months ended September 30, 2016 and 2015, gross LAE related to remediating insured obligations were $34 million and $10 million, respectively.

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

Surveillance Categories

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of September 30, 2016:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	82	7	5	327	421
Number of issues[1]	14	5	3	124	146
Remaining weighted average contract period (in years)	7.3	5.0	7.3	7.1	7.2
Gross insured contractual payments outstanding:[2]					
Principal	$3,013	$ 64	$ 338	$ 7,205	$10,620
Interest	2,843	17	117	2,840	5,817
Total	$5,856	$ 81	$ 455	$10,045	$16,437
Gross Claim Liability	$ -	$ -	$ -	$ 670	$ 670
Less:					
Gross Potential Recoveries	-	-	-	686	686
Discount, net[3]	-	-	-	14	14
Net claim liability (recoverable)	$ -	$ -	$ -	$ (30)	$ (30)
Unearned premium revenue	$ 9	$ 1	$ 8	$ 70	$ 88

(1) - An "issue" represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

(3) - Represents discount related to Gross Claim Liability and Gross Potential Recoveries.

The following table provides information about the financial guarantees and related claim liability included in each of MBIA's surveillance categories as of December 31, 2015:

	Surveillance Categories				
$ in millions	Caution List Low	Caution List Medium	Caution List High	Classified List	Total
Number of policies	57	18	171	165	411
Number of issues[1]	12	6	5	117	140
Remaining weighted average contract period (in years)	7.6	6.7	9.6	6.7	7.4
Gross insured contractual payments outstanding:[2]					
Principal	$2,591	$ 147	$1,996	$ 6,426	$11,160
Interest	2,733	57	1,038	2,419	6,247
Total	$5,324	$ 204	$3,034	$ 8,845	$17,407
Gross Claim Liability	$ -	$ -	$ -	$ 797	$ 797
Less:					
Gross Potential Recoveries	-	-	-	752	752
Discount, net[3]	-	-	-	116	116
Net claim liability (recoverable)	$ -	$ -	$ -	$ (71)	$ (71)
Unearned premium revenue	$ 8	$ 2	$ 33	$ 55	$ 98

(1) - An "issue" represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

(2) - Represents contractual principal and interest payments due by the issuer of the obligations insured by MBIA.

(3) - Represents discount related to Gross Claim Liability and Gross Potential Recoveries.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 5: Loss and Loss Adjustment Expense Reserves (continued)

The increase in the Company's number of policies on the classified list reflected in the preceding tables was primarily related to certain Puerto Rico policies. The gross claim liabilities in the preceding tables represent the Company's estimate of undiscounted probability-weighted estimated future claim payments. As of September 30, 2016 and December 31, 2015, the gross claim liability primarily related to insured first-lien RMBS transactions.

The gross potential recoveries represent the Company's estimate of undiscounted probability-weighted recoveries of actual claim payments and recoveries of estimated future claim payments. As of September 30, 2016, the gross potential recoveries principally related to insured second-lien RMBS and U.S. public finance transactions. As of December 31, 2015, the gross potential recoveries principally related to insured second-lien RMBS. The Company's recoveries have been, and remain based on either salvage rights, the rights conferred to MBIA through the transactional documents (inclusive of the insurance agreement), or subrogation rights embedded within financial guarantee insurance policies. Expected salvage and subrogation recoveries, as well as recoveries from other remediation efforts, reduce the Company's claim liability. Once a claim payment has been made, the claim liability has been satisfied and MBIA's right to recovery is no longer considered an offset to future expected claim payments, it is recorded as a salvage asset. The amount of recoveries recorded by the Company is limited to paid claims plus the present value of projected estimated future claim payments. As claim payments are made, the recorded amount of potential recoveries may exceed the remaining amount of the claim liability for a given policy. The gross claim liability and gross potential recoveries reflect the elimination of claim liabilities and potential recoveries related to VIEs consolidated by the Company. As of September 30, 2016 and December 31, 2015, reinsurance recoverable on paid and unpaid losses was $7 million and $6 million, respectively, and were included in "Other assets" on the Company's consolidated balance sheets.

Note 6: Fair Value of Financial Instruments

Fair Value Measurement

Fair value is a market-based measurement considered from the perspective of a market participant. Therefore, even when market assumptions are not readily available, the Company's own assumptions are set to reflect those which it believes market participants would use in pricing an asset or liability at the measurement date. The fair value measurement of financial instruments held or issued by the Company are determined through the use of observable market data when available. Market data is obtained from a variety of third-party sources, including dealer quotes. If dealer quotes are not available for an instrument that is infrequently traded, the Company uses alternate valuation methods, including either dealer quotes for similar instruments or modeling using market data inputs. The use of alternate valuation methods generally requires considerable judgment in the application of estimates and assumptions and changes to such estimates and assumptions may produce materially different fair values.

The accounting guidance for fair value measurement establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available and reliable. Observable inputs are those the Company believes that market participants would use in pricing an asset or liability based on available market data. Unobservable inputs are those that reflect the Company's beliefs about the assumptions market participants would use in pricing an asset or liability based on available information. The fair value hierarchy is categorized into three levels based on the observability and reliability of inputs, as follows:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company can access. Valuations are based on quoted prices that are readily and regularly available in an active market, with significant trading volumes.

- Level 2—Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. Level 2 assets include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, securities which are priced using observable inputs and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data.

- Level 3—Valuations based on inputs that are unobservable and supported by little or no market activity and that are significant to the overall fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques where significant inputs are unobservable, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The availability of observable inputs can vary from financial instrument to financial instrument and period to period and is affected by a wide variety of factors, including, for example, the type of product, whether the product is new and not yet established in the marketplace, and other characteristics particular to the product. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the Company assigns the level in the fair value hierarchy for which the fair value measurement in its entirety falls, based on the least observable input that is significant to the fair value measurement.

Financial Assets (excluding derivative assets)

Financial assets, excluding derivative assets, held by the Company primarily consist of investments in debt securities. Substantially all of the Company's investments are priced by independent third parties, including pricing services and brokers. Typically, the Company receives one pricing service value or broker quote for each instrument, which represents a non-binding indication of value. The Company, along with its third-party portfolio manager, reviews the assumptions, inputs and methodologies used by pricing services and brokers to obtain reasonable assurance that the prices used in its valuations reflect fair value. When the Company and its third-party portfolio manager believe a third-party quotation differs significantly from its internally developed expectation of fair value, whether higher or lower, the Company reviews its data or assumptions with the provider. This review includes comparing significant assumptions such as prepayment speeds, default ratios, forward yield curves, credit spreads and other significant quantitative inputs to internal assumptions, and working with the price provider to reconcile the differences. The price provider may subsequently provide an updated price. In the event that the price provider does not update its price, and the Company still does not agree with the price provided, its third-party portfolio manager will obtain a price from another third-party provider or use an internally developed price which it believes represents the fair value of the investment. The fair values of investments for which internal prices were used were not significant to the aggregate fair value of the Company's investment portfolio as of September 30, 2016 or December 31, 2015. All challenges to third-party prices are reviewed by staff of the Company as well as its third-party portfolio manager with relevant expertise to ensure reasonableness of assumptions. A pricing analysis is reviewed and approved by the Company's Valuation Committee.

Financial Liabilities (excluding derivative liabilities)

Financial liabilities, excluding derivative liabilities, issued by the Company primarily consist of debt issued for general corporate purposes within its corporate segment, medium-term notes ("MTNs"), investment agreements, debt issued by consolidated VIEs and warrants. Investment agreements, MTNs, and corporate debt are typically recorded at face value adjusted for premiums or discounts. The majority of the financial liabilities that the Company has elected to fair value or that require fair value reporting or disclosures are valued based on the estimated value of the underlying collateral, the Company's or a third-party's estimate of discounted cash flow model estimates, or quoted market values for similar products. These valuations include adjustments for expected nonperformance risk of the Company.

Derivative Liabilities

The Company's derivative liabilities are primarily interest rate swaps and insured credit derivatives. The Company's insured credit derivative contracts are non-traded structured credit derivative transactions. Since insured derivatives are highly customized and there is generally no observable market for these derivatives, the Company estimates their fair values in a hypothetical market based on internal and third-party models simulating what a similar company would charge to assume the Company's position in the transaction at the measurement date. This pricing would be based on the expected loss of the exposure. The Company reviews its valuation model results on a quarterly basis to assess the appropriateness of the assumptions and results in light of current market activity and conditions. This review is performed by internal staff with relevant expertise. If live market spreads or securities prices are observable for similar transactions, those spreads are an integral part of the analysis. New insured transactions that resemble existing (previously insured) transactions, if any, would be considered, as well as negotiated settlements of existing transactions.

Internal Review Process

All significant financial assets and liabilities are reviewed by a committee created by the Company to ensure compliance with the Company's policies and risk procedures in the development of fair values of financial assets and liabilities. This valuation committee reviews, among other things, key assumptions used for internally developed prices, significant changes in sources and uses of inputs, including changes in model approaches, and any adjustments from third-party inputs or prices to internally developed inputs or prices. The committee also reviews any significant impairment or improvements in fair values of the financial instruments from prior periods. The committee is comprised of senior finance team members with relevant experience in the financial instruments their committee is responsible for. For each quarter, the committee documents their agreement with the fair values developed by management of the Company as reported in the quarterly and annual financial statements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Valuation Techniques

Valuation techniques for financial instruments measured at fair value or disclosed at fair value are described below.

Fixed-Maturity Securities (including short-term investments) Held as Available-For-Sale, Investments Carried at Fair Value, Investments Pledged as Collateral, Investments Held-to-Maturity, and Other Investments

These investments include investments in U.S. Treasury and government agencies, state and municipal bonds, foreign governments, corporate obligations, mortgage-backed securities ("MBS"), asset-backed securities ("ABS"), money market securities, and perpetual debt and equity securities.

These investments are generally valued based on recently executed transaction prices or quoted market prices. When quoted market prices are not available, fair value is generally determined using quoted prices of similar investments or a valuation model based on observable and unobservable inputs. Inputs vary depending on the type of investment. Observable inputs include contractual cash flows, interest rate yield curves, CDS spreads, prepayment and volatility scores, diversity scores, cross-currency basis index spreads, and credit spreads for structures similar to the financial instrument in terms of issuer, maturity and seniority. Unobservable inputs include cash flow projections and the value of any credit enhancement.

The fair value of the held-to-maturity ("HTM") investments is determined using discounted cash flow models. Key inputs include unobservable cash flows projected over the expected term of the investment discounted using observable interest rate yield curves of similar securities.

Investments based on quoted market prices of identical investments in active markets are classified as Level 1 of the fair value hierarchy. Level 1 investments generally consist of U.S. Treasury and government agency, foreign government, money market securities and perpetual debt and equity securities. Quoted market prices of investments in less active markets, as well as investments which are valued based on other than quoted prices for which the inputs are observable, such as interest rate yield curves, are categorized in Level 2 of the fair value hierarchy. Investments that contain significant inputs that are not observable are categorized as Level 3.

Cash and Cash Equivalents, Receivable for Investments Sold, Securities Sold, Not Yet Purchased, Payable for Investments Purchased, and Accrued Investment Income

The carrying amounts of cash and cash equivalents, receivable for investments sold, securities sold, not yet purchased, payable for investments purchased, and accrued investment income approximate fair values due to the short-term nature and credit worthiness of these instruments. These items are categorized in Level 1 or Level 2 of the fair value hierarchy.

Loans Receivable at Fair Value

Loans receivable at fair value are comprised of loans held by consolidated VIEs consisting of residential mortgage, corporate and commercial loans. Fair values of residential mortgage loans are determined using quoted prices for MBS issued by the respective VIE and adjusted for the fair values of the financial guarantees provided by MBIA Corp. on the related MBS. Fair values of corporate and commercial loans are either obtained from a pricing service and determined using actively quoted prices obtained from multiple market participants, or based on discounted cash flow methodologies. Loans receivable at fair value are categorized in Level 3 of the fair value hierarchy based on the input that is significant to the fair value measurement in its entirety.

Loan Repurchase Commitments

Loan repurchase commitments are obligations owed by the sellers/servicers of mortgage loans to MBIA as reimbursement of paid claims. Loan repurchase commitments are assets of the consolidated VIEs. This asset represents the rights of MBIA against the sellers/servicers for breaches of representations and warranties that the securitized residential mortgage loans sold to the trust to comply with stated underwriting guidelines and for the sellers/servicers to cure, replace, or repurchase mortgage loans. Fair value measurements of loan repurchase commitments represent the amounts owed by the sellers/servicers to MBIA as reimbursement of paid claims. Loan repurchase commitments are not securities and no quoted prices or comparable market transaction information are observable or available. Fair values of loan repurchase commitments are determined using discounted cash flow techniques and are categorized in Level 3 of the fair value hierarchy.

Long-term Debt

Long-term debt consists of notes, debentures, surplus notes and accrued interest on this debt. The fair value of long-term notes, debentures and surplus notes are estimated based on quoted prices for these or similar securities. The fair value of the accrued interest expense on the surplus notes due in 2033 is determined based on the scheduled interest payments discounted by the market's perception of the credit risk related to the repayment of the surplus notes. The credit risk related to the repayment of the surplus notes is based on recent trades of the surplus notes. The deferred interest payment will be due on the first business day on or after which MBIA Insurance Corporation obtains approval to make such payment.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The carrying amounts of accrued interest expense on all other long-term debt approximate fair value due to the short-term nature of these instruments. Long-term debt is categorized as Level 2 of the fair value hierarchy.

Medium-term Notes

The fair values of certain MTNs are based on quoted market prices provided by third-party sources, where available. When quoted market prices are not available, the Company applies a matrix pricing grid based on the quoted market prices received and the MTNs' stated maturity and interest rate to determine fair value. Nonperformance risk is included in the quoted market prices and the matrix pricing grid. The Company has elected to record these MTNs at fair value as they contain embedded derivatives which cannot accurately be separated from the host debt instrument and fair valued separately, therefore, these MTNs are carried at fair value with changes in fair value reflected in earnings. The remaining MTNs, which are not carried at fair value, do not contain embedded derivatives. As these MTNs are illiquid and the prices reflect significant unobservable inputs, they are categorized as Level 3 of the fair value hierarchy.

Investment Agreements

The fair values of investment agreements are determined using discounted cash flow techniques based on contractual cash flows and observable interest rates currently being offered for similar agreements with comparable maturity dates. Investment agreements contain collateralization and termination agreements that substantially mitigate the nonperformance risk of the Company. As the terms of the notes are private, and the timing and amount of contractual cash flows are not observable, these investment agreements are categorized as Level 3 of the fair value hierarchy.

Variable Interest Entity Notes

The fair values of VIE notes are determined based on recently executed transaction prices or quoted prices where observable. When position-specific quoted prices are not observable, fair values are based on quoted prices of similar securities. Fair values based on quoted prices of similar securities may be adjusted for factors unique to the securities, including any credit enhancement. When observable quoted prices are not available, fair value is determined based on discounted cash flow techniques of the underlying collateral using observable and unobservable inputs. Observable inputs include interest rate yield curves and bond spreads of similar securities. Unobservable inputs include the value of any credit enhancement. VIE notes are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

Variable Interest Entity Derivatives

The VIEs have entered into derivative transactions consisting of cross currency swaps and interest rate caps. Fair values of over-the-counter ("OTC") derivatives are determined using valuation models based on observable and/or unobservable inputs. These observable and market-based inputs include interest rates and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the input that is significant to the fair value measurement in its entirety.

Derivatives

The corporate segment has entered into derivative transactions primarily consisting of interest rate swaps. Fair values of OTC derivatives are determined using valuation models based on observable inputs, nonperformance risk of the Company's own credit and nonperformance risk of the counterparties. Observable and market-based inputs include interest rate yields, credit spreads and volatilities. These derivatives are categorized in Level 2 or Level 3 of the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company has policies and procedures in place regarding counterparties, including review and approval of the counterparty and the Company's exposure limit, collateral posting requirements, collateral monitoring and margin calls on collateral. The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative transactions in the corporate segment. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either the Company or the counterparty is downgraded below a specified credit rating. The netting agreements minimize the potential for losses related to credit exposure and thus serve to mitigate the Company's nonperformance risk under these derivatives.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In certain cases, the Company also manages credit risk through collateral agreements that give the Company the right to hold or the obligation to provide collateral when the current market value of derivative contracts exceeds an exposure threshold. Under these agreements, the Company may provide U.S. Treasury and other highly rated securities or cash to secure the derivative. The delivery of high-quality collateral can minimize credit exposure and mitigate the potential for nonperformance risk impacting the fair values of the derivatives.

Derivatives—Insurance

The derivative contracts insured by the Company cannot be legally traded and generally do not have observable market prices. The Company determines the fair values of insured credit derivatives using valuation models. The valuation models are consistently applied from period to period, with refinements to the fair value estimation approach being applied as and when the information becomes available. Negotiated settlements are also considered when determining fair value to validate the fair value estimates determined by the valuation models and to determine the best available estimate of fair value from the perspective of a market participant.

Approximately 97% of the balance sheet fair value of insured credit derivatives as of September 30, 2016 was valued based on the Binomial Expansion Technique ("BET") Model. Approximately 3% of the balance sheet fair value of insured credit derivatives as of September 30, 2016 was valued based on the internally developed Direct Price Model and the Dual Default model. The valuation of insured derivatives includes the impact of its credit standing. All of these derivatives are categorized as Level 3 of the fair value hierarchy as their fair value is derived using significant unobservable inputs.

Valuation Model Overview

The Company uses the BET Model to estimate what a bond insurer would charge to guarantee a transaction at the measurement date, based on the market-implied default risk of the underlying collateral and the remaining structural protection in a deductible or subordination.

Inputs to the process of determining fair value for structured transactions using the BET Model include estimates of collateral loss, allocation of loss to separate tranches of the capital structure, credit spreads, recovery rates and nonperformance risk.

As of September 30, 2016 and December 31, 2015, the Company's net insured CDS derivative liability was $85 million based on the results of the aforementioned models. A significant driver of changes in fair value is MBIA Corp.'s nonperformance risk. In aggregate, the nonperformance calculation resulted in a pre-tax net insured derivative liability that was $55 million and $99 million lower than the net liability that would have been estimated if MBIA Corp. excluded nonperformance risk in its valuation as of September 30, 2016 and December 31, 2015, respectively.

The Company has also entered into a derivative contract as a result of a commutation. The fair value of the derivative is determined using a discounted cash flow model. Key inputs include unobservable cash flows projected over the expected term of the derivative, discounted using observable discount rates and CDS spreads.

Warrants

Stock warrants issued by the Company are valued using the Black-Scholes model and are recorded at fair value. Inputs into the warrant valuation include the Company's stock price, a volatility parameter, interest rates, and dividend data. As all significant inputs are market-based and observable, warrants are categorized as Level 2 of the fair value hierarchy.

Financial Guarantees

Gross Financial Guarantees—The fair value of gross financial guarantees is determined using discounted cash flow techniques based on inputs that include (i) assumptions of expected losses on financial guarantee policies where loss reserves have not been recognized, (ii) amount of losses expected on financial guarantee policies where loss reserves have been established, net of expected recoveries, (iii) the cost of capital reserves required to support the financial guarantee liability, (iv) operating expenses, and (v) discount rates. The MBIA Corp. CDS spread and recovery rate are used as the discount rate for MBIA Corp., while the CDS spread and recovery rate of a similar municipal bond insurance company are used as the discount rate for National, as National does not have a published CDS spread and recovery rate.

The carrying value of the Company's gross financial guarantees consists of unearned premium revenue and loss and LAE reserves, net of the insurance loss recoverable as reported on MBIA's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Ceded Financial Guarantees—The fair value of ceded financial guarantees is determined by applying the percentage ceded to reinsurers to the related fair value of the gross financial guarantees. The carrying value of ceded financial guarantees consists of prepaid reinsurance premiums and reinsurance recoverable on paid and unpaid losses as reported within "Other assets" on the Company's consolidated balance sheets.

Significant Unobservable Inputs

The following tables provide quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015. These tables exclude inputs used to measure fair value that are not developed by the Company, such as broker prices and other third-party pricing service valuations.

In millions	Fair Value as of September 30, 2016	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 995	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 24% (2%)
		Discounted cash flow	Multiples(1)	
Loan repurchase commitments	404	Discounted cash flow	Recovery rates(2)	
			Breach rates(2)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	498	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 56% (23%)
Credit derivative liabilities, net:				
CMBS	82	BET Model	Recovery rates	25% - 90% (44%)
			Nonperformance risk	22% - 39% (39%)
			Weighted average life (in years)	0.8 - 3.4 (1.9)
			CMBS spreads	0% - 49% (34%)
Multi-sector CDO	2	Direct Price Model	Nonperformance risk	58% - 58% (58%)
Other	1	BET Model and Dual Default	Nonperformance risk	51% - 51% (51%)
			Weighted average life (in years)	5.7 - 5.7 (5.7)
Other derivative liabilities	19	Discounted cash flow	Cash flows	$0 - $83 ($42)(3)

(1) - Unobservable inputs are not developed by the Company.

(2) - Recovery rates and breach rates include estimates about potential variations in the outcome of litigation with a counterparty.

(3) - Midpoint of cash flows are used for the weighted average.

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Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value as of December 31, 2015	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Assets of consolidated VIEs:				
Loans receivable at fair value	$ 1,292	Market prices adjusted for financial guarantees provided to VIE obligations	Impact of financial guarantee	0% - 5% (1%)
Loan repurchase commitments	396	Discounted cash flow	Recovery rates(1)	
			Breach rates(1)	
Liabilities of consolidated VIEs:				
Variable interest entity notes	1,267	Market prices of VIE assets adjusted for financial guarantees provided	Impact of financial guarantee	0% - 37% (14%)
Credit derivative liabilities, net:				
CMBS	72	BET Model	Recovery rates	25% - 90% (66%)
			Nonperformance risk	33% - 55% (54%)
			Weighted average life (in years)	1.1 - 3.2 (1.6)
			CMBS spreads	0% - 59% (19%)
Multi-sector CDO	3	Direct Price Model	Nonperformance risk	59% - 59% (59%)
Other	10	BET Model and Dual Default	Recovery rates	42% - 45% (43%)
			Nonperformance risk	59% - 59% (59%)
			Weighted average life (in years)	0.5 - 7.3 (1.9)
Other derivative liabilities	18	Discounted cash flow	Cash flows	$0 - $83 ($42)(2)

(1) - Recovery rates and breach rates include estimates about potential variations in the outcome of litigation with a counterparty.

(2) - Midpoint of cash flows are used for the weighted average.

Sensitivity of Significant Unobservable Inputs

The significant unobservable inputs used in the fair value measurement of the Company's loans receivable at fair value of consolidated VIEs are the impact of the financial guarantee and multiples. The fair value of loans receivable are calculated by subtracting the value of the financial guarantee from the market value of VIE liabilities and by discounted cash flow methodologies. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As expected cash payments provided by the Company under the insurance policy increase, there is a lower expected cash flow on the underlying loans receivable of the VIE. This results in a lower fair value of the loans receivable in relation to the obligations of the VIE.

The significant unobservable inputs used in the fair value measurement of the Company's loan repurchase commitments of consolidated VIEs are the recovery rates and breach rates. Recovery rates reflect the estimates of future cash flows reduced for litigation delays and risks and/or potential financial distress of the sellers/servicers. The estimated recoveries of the loan repurchase commitments may differ from the actual recoveries that may be received in the future. Breach rates represent the rate at which mortgages fail to comply with stated representations and warranties of the sellers/servicers. Significant increases or decreases in the recovery rates and the breach rates would result in significantly higher or lower fair values of the loan repurchase commitments, respectively. Additionally, changes in the legal environment and the ability of the counterparties to pay would impact the recovery rate assumptions, which could significantly impact the fair value measurement. Any significant challenges by the counterparties to the Company's determination of breaches of representations and warranties could significantly adversely impact the fair value measurement. Recovery rates and breach rates are determined independently. Changes in one input will not necessarily have any impact on the other input.

The significant unobservable input used in the fair value measurement of the Company's VIE notes of consolidated VIEs is the impact of the financial guarantee. The fair value of VIE notes is calculated by adding the value of the financial guarantee to the market value of VIE assets. The value of a financial guarantee is estimated by the Company as the present value of expected cash payments under the policy. As the value of the guarantee provided by the Company to the obligations issued by the VIE increases, the credit support adds value to the liabilities of the VIE. This results in an increase in the fair value of the liabilities of the VIE.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s commercial mortgage-backed securities ("CMBS") credit derivatives, which are valued using the BET Model, are CMBS spreads, recovery rates, nonperformance risk and weighted average life. The CMBS spread is an indicator of credit risk of the collateral securities. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on the Company's estimate of when the principal of the underlying collateral of the CMBS structure will be repaid. A significant increase or decrease in CMBS spreads would result in an increase or decrease in the fair value of the derivative liability, respectively. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates, or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. CMBS spreads, recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s multi-sector CDO credit derivatives, which are valued using the Direct Price Model, is nonperformance risk. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Any significant increase or decrease in MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively.

The significant unobservable inputs used in the fair value measurement of MBIA Corp.'s other credit derivatives, which are valued using the BET Model and Dual Default, are recovery rates, nonperformance risk and weighted average life. The recovery rate represents the percentage of notional expected to be recovered after an asset defaults, indicating the severity of a potential loss. The nonperformance risk is an assumption of MBIA Corp.'s own ability to pay and whether MBIA Corp. will have the necessary resources to pay the obligations as they come due. Weighted average life is based on MBIA Corp.'s estimate of when the principal of the underlying collateral will be repaid. A significant increase in weighted average life can result in an increase or decrease in the fair value of the derivative liability, depending on the discount rate and the timing of significant losses. Any significant increase or decrease in recovery rates or MBIA Corp.'s nonperformance risk would result in a decrease or increase in the fair value of the derivative liabilities, respectively. Recovery rates, nonperformance risk and weighted average lives are determined independently. Changes in one input will not necessarily have any impact on the other inputs.

The significant unobservable input used in the fair value measurement of MBIA Corp.'s other derivatives, which are valued using a discounted cash flow model, is the estimates of future cash flows discounted using market rates and CDS spreads. Any significant increase or decrease in future cash flows would result in an increase or decrease in the fair value of the derivative liability, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Fair Value Measurements

The following tables present the fair value of the Company's assets (including short-term investments) and liabilities measured and reported at fair value on a recurring basis as of September 30, 2016 and December 31, 2015:

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of September 30, 2016
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 1,059	$ 119	$ -	$ -	$ 1,178
State and municipal bonds	-	1,584	4(1)	-	1,588
Foreign governments	112	50	6(1)	-	168
Corporate obligations	-	1,753	1(1)	-	1,754
Mortgage-backed securities:					
Residential mortgage-backed agency	-	922	-	-	922
Residential mortgage-backed non-agency	-	44	-	-	44
Commercial mortgage-backed	-	43	1(1)	-	44
Asset-backed securities:					
Collateralized debt obligations	-	8	17(1)	-	25
Other asset-backed	-	366	38(1)	-	404
Total fixed-maturity investments	1,171	4,889	67	-	6,127
Money market securities	190	-	-	-	190
Perpetual debt and equity securities	23	17	-	-	40
Cash and cash equivalents	191	-	-	-	191
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	4	-	(1)	3

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of September 30, 2016
Assets of consolidated VIEs:					
Corporate obligations	-	31	3(1)	-	34
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	156	-	-	156
Commercial mortgage-backed	-	49	3(1)	-	52
Asset-backed securities:					
Collateralized debt obligations	-	9	1(1)	-	10
Other asset-backed	-	17	1(1)	-	18
Cash	25	-	-	-	25
Loans receivable at fair value:					
Residential loans receivable	-	-	995	-	995
Other loans receivable	-	-	147(1)	-	147
Loan repurchase commitments	-	-	404	-	404
Derivative assets:					
Currency derivatives	-	-	13(1)	-	13
Total assets	$ 1,600	$ 5,172	$ 1,634	$ (1)	$ 8,405
Liabilities:					
Medium-term notes	$ -	$ -	$ 106(1)	$ -	$ 106
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	2	85	-	87
Non-insured derivatives:					
Interest rate derivatives	-	296	-	(19)	277
Other	-	-	19	-	19
Other liabilities:					
Warrants	-	13	-	-	13
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	935	498	-	1,433
Total liabilities	$ -	$ 1,246	$ 708	$ (19)	$ 1,935

(1) - Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2015
Assets:					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 866	$ 110	$ -	$ -	$ 976
State and municipal bonds	-	1,685	41(1)	-	1,726
Foreign governments	153	43	2(1)	-	198
Corporate obligations	-	1,450	7(1)	-	1,457
Mortgage-backed securities:					
Residential mortgage-backed agency	-	993	-	-	993
Residential mortgage-backed non-agency	-	51	-	-	51
Commercial mortgage-backed	-	31	-	-	31
Asset-backed securities:					
Collateralized debt obligations	-	5	29(1)	-	34
Other asset-backed	-	281	38(1)	-	319
Total fixed-maturity investments	1,019	4,649	117	-	5,785
Money market securities	354	-	-	-	354
Perpetual debt and equity securities	18	190	-	-	208
Cash and cash equivalents	464	-	-	-	464
Derivative assets:					
Non-insured derivative assets:					
Interest rate derivatives	-	4	-	(1)	3

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

In millions	Fair Value Measurements at Reporting Date Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Balance as of December 31, 2015
Assets of consolidated VIEs:					
Corporate obligations	-	39	11(1)	-	50
Mortgage-backed securities:					
Residential mortgage-backed non-agency	-	172	-	-	172
Commercial mortgage-backed	-	672	-	-	672
Asset-backed securities:					
Collateralized debt obligations	-	13	1(1)	-	14
Other asset-backed	-	18	6(1)	-	24
Cash	58	-	-	-	58
Loans receivable at fair value:					
Residential loans receivable	-	-	1,185	-	1,185
Other loans receivable	-	-	107	-	107
Loan repurchase commitments	-	-	396	-	396
Derivative assets:					
Currency derivatives	-	-	11(1)	-	11
Total assets	$ 1,913	$ 5,757	$ 1,834	$ (1)	$ 9,503
Liabilities:					
Medium-term notes	$ -	$ -	$ 161(1)	$ -	$ 161
Derivative liabilities:					
Insured derivatives:					
Credit derivatives	-	3	85	-	88
Non-insured derivatives:					
Interest rate derivatives	-	240	-	(32)	208
Other	-	-	18	-	18
Other liabilities:					
Warrants	-	18	-	-	18
Securities sold, not yet purchased	18	-	-	-	18
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	1,095	1,267	-	2,362
Derivative liabilities:					
Interest rate derivatives	-	45	-	-	45
Total liabilities	$ 18	$ 1,401	$ 1,531	$ (32)	$ 2,918

(1) - Unobservable inputs are either not developed by the Company or do not significantly impact the overall fair values of the aggregate financial assets and liabilities.

Level 3 assets at fair value as of September 30, 2016 and December 31, 2015 represented approximately 19% of total assets measured at fair value. Level 3 liabilities at fair value as of September 30, 2016 and December 31, 2015 represented approximately 37% and 52%, respectively, of total liabilities measured at fair value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present the fair values and carrying values of the Company's assets and liabilities that are disclosed at fair value but not reported at fair value on the Company's consolidated balance sheets as of September 30, 2016 and December 31, 2015:

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of September 30, 2016	Carry Value Balance as of September 30, 2016
Assets:					
Other investments	$ -	$ -	$ 3	$ 3	$ 3
Accrued investment income(1)	-	41	-	41	41
Receivable for investments sold(1)	-	23	-	23	23
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	573	573	890
Total assets	$ -	$ 64	$ 576	$ 640	$ 957
Liabilities:					
Long-term debt	$ -	$ 976	$ -	$ 976	$ 1,975
Medium-term notes	-	-	485	485	826
Investment agreements	-	-	571	571	418
Payable for investments purchased(2)	-	50	-	50	50
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	777	777	890
Total liabilities	$ -	$ 1,026	$ 1,833	$ 2,859	$ 4,159
Financial Guarantees:					
Gross	$ -	$ -	$ 3,141	$ 3,141	$ 1,329
Ceded	-	-	107	107	52

(1) - Reported within "Other assets" on MBIA's consolidated balance sheets.

(2) - Reported within "Other liabilities" on MBIA's consolidated balance sheets.

	Fair Value Measurements at Reporting Date Using				
In millions	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Balance as of December 31, 2015	Carry Value Balance as of December 31, 2015
Assets:					
Other investments	$ -	$ -	$ 3	$ 3	$ 3
Accrued investment income(1)	-	38	-	38	38
Receivable for investments sold(1)	-	26	-	26	26
Assets of consolidated VIEs:					
Investments held-to-maturity	-	-	2,401	2,401	2,689
Total assets	$ -	$ 64	$ 2,404	$ 2,468	$ 2,756
Liabilities:					
Long-term debt	$ -	$ 762	$ -	$ 762	$ 1,889
Medium-term notes	-	-	534	534	855
Investment agreements	-	-	595	595	462
Payable for investments purchased(2)	-	36	-	36	36
Liabilities of consolidated VIEs:					
Variable interest entity notes	-	-	2,596	2,596	2,689
Total liabilities	$ -	$ 798	$ 3,725	$ 4,523	$ 5,931
Financial Guarantees:					
Gross	$ -	$ -	$ 3,093	$ 3,093	$ 1,530
Ceded	-	-	94	94	56

(1) - Reported within "Other assets" on MBIA's consolidated balance sheets.

(2) - Reported within "Other liabilities" on MBIA's consolidated balance sheets.

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following tables present information about changes in Level 3 assets (including short-term investments) and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2016 and 2015:

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2016

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2016
Assets:													
Foreign governments	$ 7	$ -	$ -	$ -	$ -	$ 5	$ -	$ (6)	$ -	$ -	$ -	$ 6	$ -
Corporate obligations	2	-	-	-	-	-	-	(1)	-	-	-	1	-
Commercial mortgage-backed	-	-	-	-	-	-	-	-	-	1	-	1	-
Collateralized debt obligations	20	-	-	-	-	-	-	(3)	-	-	-	17	-
Other asset-backed	41	-	-	-	-	-	-	-	-	-	(3)	38	-
State and municipal bonds	124	-	-	-	-	-	-	-	-	2	(122)	4	-
Assets of consolidated VIEs:													
Corporate obligations	3	-	-	-	-	-	-	-	-	-	-	3	-
Residential mortgage- backed non-agency	1	-	(1)	-	-	-	-	-	-	-	-	-	-
Commercial mortgage-backed	2	-	(1)	-	-	-	-	-	-	2	-	3	(1)
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Other asset-backed	4	-	-	-	-	-	-	-	-	-	(3)	1	-
Loans receivable- residential	1,045	-	25	-	-	-	-	(75)	-	-	-	995	25
Loans receivable- other	147	-	-	-	-	-	-	-	-	-	-	147	-
Loan repurchase commitments	401	-	3	-	-	-	-	-	-	-	-	404	3
Currency derivatives, net	9	-	-	-	4	-	-	-	-	-	-	13	4
Total assets	$ 1,807	$ -	$ 26	$ -	$ 4	$ 5	$ -	$ (85)	$ -	$ 5	$ (128)	$ 1,634	$ 31

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[1]	Transfers out of Level 3[1]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2016
Liabilities:													
Medium-term notes	$ 161	$ -	$ -	$ -	$ 2	$ -	$ -	$ (57)	$ -	$ -	$ -	$ 106	$ 2
Credit derivatives, net	104	5	(19)	-	-	-	-	(5)	-	-	-	85	12
Other derivatives	21	-	(2)	-	-	-	-	-	-	-	-	19	(2)
Liabilities of consolidated VIEs:													
VIE notes	523	-	2	-	-	-	-	(27)	-	-	-	498	2
Total liabilities	$ 809	$ 5	$ (19)	$ -	$ 2	$ -	$ -	$ (89)	$ -	$ -	$ -	$ 708	$ 14

(1) - Transferred in and out at the end of the period.

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Three Months Ended September 30, 2015

In millions	Balance, Beginning of Period	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2015
Assets:													
Foreign governments	$ 5	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 5	$ -
Corporate obligations	8	-	-	-	-	-	-	-	-	-	-	8	-
Commercial mortgage-backed	1	-	-	-	-	-	-	-	-	-	(1)	-	-
Collateralized debt obligations	67	-	-	1	-	-	-	(4)	-	-	(3)	61	-
Other asset-backed	83	-	-	-	-	-	-	(2)	-	-	(24)	57	-
State and municipal bonds	5	-	-	-	-	45	-	(3)	-	-	-	47	-
Assets of consolidated VIEs:													
Corporate obligations	35	-	1	-	-	-	-	-	-	3	(28)	11	-
Residential mortgage- backed non-agency	5	-	-	-	-	-	-	-	-	-	(5)	-	-
Collateralized debt obligations	4	-	5	-	-	-	-	-	-	-	(9)	-	-
Other asset-backed	17	-	-	-	-	-	-	(1)	-	-	(7)	9	-
Loans receivable- residential	1,318	-	(12)	-	-	-	-	(62)	-	-	-	1,244	(12)
Loans receivable-other	108	-	(1)	-	-	-	-	-	-	-	-	107	(1)
Loan repurchase commitments	388	-	6	-	-	-	-	-	-	-	-	394	6
Currency derivatives, net	2	-	1	-	3	-	-	-	-	-	-	6	4
Total assets	$ 2,046	$ -	$ -	$ 1	$ 3	$ 45	$ -	$ (72)	$ -	$ 3	$ (77)	$ 1,949	$ (3)

In millions	Balance, Beginning of Period	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2015
Liabilities:													
Medium-term notes	$ 166	$ -	$ 4	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 170	$ 4
Credit derivatives, net	144	18	(21)	-	-	-	-	(20)	-	-	-	121	(21)
Other derivatives, net	21	-	1	-	-	-	-	-	-	-	-	22	1
Liabilities of consolidated VIEs:													
VIE notes	1,374	-	1	-	-	-	-	(65)	-	-	-	1,310	1
Total liabilities	$ 1,705	$ 18	$ (15)	$ -	$ -	$ -	$ -	$ (85)	$ -	$ -	$ -	$ 1,623	$ (15)

(1) - Transferred in and out at the end of the period.

For the three months ended September 30, 2016, transfers into Level 3 and out of Level 2 were principally related to commercial mortgage-backed and state and municipal bonds, where inputs, which are significant to their valuation, became unobservable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. State and municipal bonds and other asset-backed comprised the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. There were no transfers into or out of Level 1 for the three months ended September 30, 2016.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

For the three months ended September 30, 2015, transfers into Level 3 were principally related to corporate obligations, where inputs, which are significant to their valuation, became unobservable during the quarter. Corporate obligations, other ABS and CDOs comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the quarter. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1 for the three months ended September 30, 2015.

All Level 1, 2 and 3 designations are made at the end of each accounting period.

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2016

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2016
Assets:													
Foreign governments	$ 2	$ -	$ -	$ -	$ (1)	$ 10	$ -	$ (5)	$ -	$ -	$ -	$ 6	$ -
Corporate obligations	7	-	-	-	-	-	-	-	-	-	(6)	1	-
Commercial mortgage-backed	-	-	-	-	-	-	-	-	-	1	-	1	-
Collateralized debt obligations	29	-	-	18	-	-	-	(30)	-	-	-	17	-
Other asset-backed	38	(1)	(1)	8	-	-	-	(3)	-	-	(3)	38	(1)
State and municipal bonds	41	-	-	-	-	122	-	(39)	-	2	(122)	4	-
Assets of consolidated VIEs:													
Corporate obligations	11	-	(4)	-	-	-	-	(1)	-	2	(5)	3	-
Residential mortgage- backed non-agency	-	-	(1)	-	-	-	-	-	-	1	-	-	-
Commercial mortgage-backed	-	-	(1)	-	-	-	-	-	-	4	-	3	(1)
Collateralized debt obligations	1	-	-	-	-	-	-	-	-	-	-	1	-
Other asset-backed	6	-	(6)	-	-	-	-	-	-	4	(3)	1	-
Loans receivable- residential	1,185	-	(5)	-	-	-	-	(185)	-	-	-	995	(5)
Loans receivable-other	107	-	1	-	-	146	-	-	(107)	-	-	147	1
Loan repurchase commitments	396	-	8	-	-	-	-	-	-	-	-	404	8
Currency derivatives net	11	-	(2)	-	4	-	-	-	-	-	-	13	2
Total assets	$ 1,834	$ (1)	$ (11)	$ 26	$ 3	$ 278	$ -	$ (263)	$ (107)	$ 14	$ (139)	$ 1,634	$ 4

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3[(1)]	Transfers out of Level 3[(1)]	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2016
Liabilities:													
Medium-term notes	$ 161	$ -	$ (4)	$ -	$ 6	$ -	$ -	$ (57)	$ -	$ -	$ -	$ 106	$ 2
Credit derivatives, net	85	21	-	-	-	-	-	(21)	-	-	-	85	9
Other derivatives, net	18	-	1	-	-	-	-	-	-	-	-	19	(1)
Liabilities of consolidated VIEs:													
VIE notes	1,267	-	(41)	-	-	9	-	(106)	(631)	-	-	498	(41)
Total liabilities	$ 1,531	$ 21	$ (44)	$ -	$ 6	$ 9	$ -	$ (184)	$ (631)	$ -	$ -	$ 708	$ (31)

(1) - Transferred in and out at the end of the period.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Changes in Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis for the Nine Months Ended September 30, 2015

In millions	Balance, Beginning of Year	Realized Gains / (Losses)	Unrealized Gains / (Losses) Included in Earnings	Unrealized Gains / (Losses) Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3(1)	Transfers out of Level 3(1)	Ending Balance	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets still held as of September 30, 2015
Assets:													
Foreign governments	$ 6	$ -	$ -	$ -	$ (1)	$ -	$ -	$ -	$ -	$ -	$ -	$ 5	$ -
Corporate obligations	10	-	-	-	-	-	-	-	-	15	(17)	8	-
Commercial mortgage-backed	2	-	-	-	-	-	-	-	-	1	(3)	-	-
Collateralized debt obligations	87	-	-	3	-	-	-	(18)	(8)	1	(4)	61	-
Other asset-backed	85	(2)	-	1	-	4	-	(9)	(8)	12	(26)	57	-
State and municipal bonds	8	-	-	-	-	45	-	(4)	-	-	(2)	47	-
Assets of consolidated VIEs:													
Corporate obligations	55	-	-	-	-	-	-	(6)	-	3	(41)	11	-
Residential mortgage- backed non-agency	3	-	1	-	-	-	-	(1)	-	2	(5)	-	-
Collateralized debt obligations	5	-	5	-	-	-	-	-	-	-	(10)	-	-
Other asset-backed	26	-	2	-	-	-	-	(5)	-	-	(14)	9	-
Loans receivable-residential	1,431	-	(15)	-	-	-	-	(172)	-	-	-	1,244	(15)
Loans receivable-other	-	-	(1)	-	-	108	-	-	-	-	-	107	(1)
Loan repurchase commitments	379	-	15	-	-	-	-	-	-	-	-	394	15
Currency derivatives, net	-	-	-	-	6	-	-	-	-	-	-	6	6
Total assets	$ 2,097	$ (2)	$ 7	$ 4	$ 5	$ 157	$ -	$ (215)	$ (16)	$ 34	$ (122)	$ 1,949	$ 5

In millions	Balance, Beginning of Year	Realized (Gains) / Losses	Unrealized (Gains) / Losses Included in Earnings	Unrealized (Gains) / Losses Included in OCI	Foreign Exchange Recognized in OCI or Earnings	Purchases	Issuances	Settlements	Sales	Transfers into Level 3 (1)	Transfers out of Level 3 (1)	Ending Balance	Change in Unrealized (Gains) Losses for the Period Included in Earnings for Liabilities still held as of September 30, 2015
Liabilities:													
Medium-term notes	$ 197	$ -	$ (11)	$ -	$ (16)	$ -	$ -	$ -	$ -	$ -	$ -	$ 170	$ (27)
Credit derivatives, net	244	30	(121)	-	-	-	-	(32)	-	-	-	121	(109)
Other derivatives, net	24	-	(2)	-	-	-	-	-	-	-	-	22	(2)
Liabilities of consolidated VIEs:													
VIE notes	735	-	22	-	-	695	-	(142)	-	-	-	1,310	22
Total liabilities	$ 1,200	$ 30	$ (112)	$ -	$ (16)	$ 695	$ -	$ (174)	$ -	$ -	$ -	$ 1,623	$ (116)

(1) - Transferred in and out at the end of the period.

For the nine months ended September 30, 2016, transfers into Level 3 and out of Level 2 were principally related to commercial mortgage-backed, other asset-backed, corporate obligations, state and municipal bonds, and RMBS, where inputs, which are significant to their valuation, became unobservable during the period. State and municipal bonds and corporate obligations comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

For the nine months ended September 30, 2015, transfers into Level 3 and out of Level 2 were principally related to corporate obligations and other ABS, where inputs, which are significant to their valuation, became unobservable during the period. Corporate obligations, other ABS and CDOs comprised the majority of the instruments transferred out of Level 3 where inputs, which are significant to their valuation, became observable during the period. These inputs included spreads, prepayment speeds, default speeds, default severities, yield curves observable at commonly quoted intervals, and market corroborated inputs. There were no transfers into or out of Level 1.

All Level 1, 2 and 3 designations are made at the end of each accounting period.

Gains and losses (realized and unrealized) included in earnings related to Level 3 assets and liabilities for the three months ended September 30, 2016 and 2015 are reported on the Company's consolidated statements of operations as follows:

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
In millions	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2016	Total Gains (Losses) Included in Earnings	Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2015
Revenues:				
Unrealized gains (losses) on insured derivatives	$ 19	$ (12)	$ 21	$ 21
Realized gains (losses) and other settlements on insured derivatives	(5)	-	(18)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	-	-	(5)	(5)
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	28	29	2	(4)
Total	$ 42	$ 17	$ -	$ 12

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

Gains and losses (realized and unrealized) included in earnings relating to Level 3 assets and liabilities for the nine months ended September 30, 2016 and 2015 are reported on the Company's consolidated statements of operations as follows:

In millions	Nine Months Ended September 30, 2016: Total Gains (Losses) Included in Earnings	Nine Months Ended September 30, 2016: Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2016	Nine Months Ended September 30, 2015: Total Gains (Losses) Included in Earnings	Nine Months Ended September 30, 2015: Change in Unrealized Gains (Losses) for the Period Included in Earnings for Assets and Liabilities still held as of September 30, 2015
Revenues:				
Unrealized gains (losses) on insured derivatives	$ -	$ (9)	$ 121	$ 109
Realized gains (losses) and other settlements on insured derivatives	(21)	-	(30)	-
Net gains (losses) on financial instruments at fair value and foreign exchange	(5)	(2)	26	29
Net investment losses related to other-than-temporary impairments	(1)	-	-	-
Revenues of consolidated VIEs:				
Net gains (losses) on financial instruments at fair value and foreign exchange	35	46	(9)	(17)
Total	$ 8	$ 35	$ 108	$ 121

Fair Value Option

The Company elected to record at fair value certain financial instruments that have been consolidated in connection with the adoption of the accounting guidance for consolidation of VIEs, among others.

The following table presents the changes in fair value included in the Company's consolidated statements of operations for the three and nine months ended September 30, 2016 and 2015 for financial instruments for which the fair value option was elected:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Investments carried at fair value[1]	$ 2	$ (2)	$ 8	$ 1
Fixed-maturity securities held at fair value-VIE[2]	(12)	(20)	(109)	(93)
Loans receivable at fair value:				
Residential mortgage loans[2]	(50)	(74)	(190)	(187)
Loan repurchase commitments[2]	3	6	8	15
Medium-term notes[1]	(2)	(3)	(2)	27
Variable interest entity notes [2]	70	122	307	283

(1) - Reported within "Net gains (losses) on financial instruments at fair value and foreign exchange" on MBIA's consolidated statements of operations.

(2) - Reported within "Net gains (losses) on financial instruments at fair value and foreign exchange-VIE" on MBIA's consolidated statements of operations.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 6: Fair Value of Financial Instruments (continued)

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of September 30, 2016 and December 31, 2015 for loans and notes for which the fair value option was elected:

In millions	As of September 30, 2016 Contractual Outstanding Principal	Fair Value	Difference	As of December 31, 2015 Contractual Outstanding Principal	Fair Value	Difference
Loans receivable at fair value:						
Residential mortgage loans	$ 1,054	$ 962	$ 92	$ 1,260	$1,149	$ 111
Residential mortgage loans (90 days or more past due)	150	33	117	177	36	141
Other loans	-	-	-	107	107	-
Other loans (90 days or more past due)	147	147	-	75	-	75
Total loans receivable at fair value	$ 1,351	$1,142	$ 209	$ 1,619	$1,292	$ 327
Variable interest entity notes	$ 2,551	$1,433	$ 1,118	$ 3,663	$2,362	$ 1,301
Medium-term notes	$ 169	$ 106	$ 63	$ 217	$ 161	$ 56

Substantially all gains and losses included in earnings during the three and nine months ended September 30, 2016 and 2015 on loans receivable and VIE notes reported in the preceding table are attributable to credit risk. This is primarily due to the high rate of defaults on loans and the collateral supporting the VIE notes, resulting in depressed pricing of the financial instruments.

Note 7: Investments

Investments, excluding those elected under the fair value option, include debt and equity securities classified as either AFS or HTM. Other AFS investments primarily comprise money market funds.

The following tables present the amortized cost, fair value, corresponding gross unrealized gains and losses and OTTI for AFS and HTM investments in the Company's consolidated investment portfolio as of September 30, 2016 and December 31, 2015:

In millions	September 30, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments(1)
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 1,109	$ 63	$ (1)	$1,171	$ -
State and municipal bonds	1,474	117	(3)	1,588	-
Foreign governments	165	3	(1)	167	-
Corporate obligations	1,707	63	(81)	1,689	(78)
Mortgage-backed securities:					
Residential mortgage-backed agency	906	12	(1)	917	-
Residential mortgage-backed non-agency	49	1	(6)	44	(3)
Commercial mortgage-backed	41	-	-	41	-
Asset-backed securities:					
Collateralized debt obligations	24	-	-	24	-
Other asset-backed	402	1	(7)	396	-
Total fixed-maturity investments	5,877	260	(100)	6,037	(81)
Money market securities	187	-	-	187	-
Perpetual debt and equity securities	6	1	-	7	-
Total AFS investments	$ 6,070	$ 261	$ (100)	$6,231	$ (81)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 890	$ -	$ (317)	$ 573	$ -
Total HTM investments	$ 890	$ -	$ (317)	$ 573	$ -

(1) - Represents unrealized gains or losses on OTTI securities recognized in AOCI, which includes the non-credit component of impairments, as well as all subsequent changes in fair value of such impaired securities reported in AOCI.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

	December 31, 2015				
In millions	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-Than-Temporary Impairments(1)
AFS Investments					
Fixed-maturity investments:					
U.S. Treasury and government agency	$ 947	$ 32	$ (3)	$ 976	$ -
State and municipal bonds	1,674	65	(14)	1,725	-
Foreign governments	197	3	(2)	198	-
Corporate obligations	1,516	21	(103)	1,434	(85)
Mortgage-backed securities:					
Residential mortgage-backed agency	995	7	(9)	993	-
Residential mortgage-backed non-agency	55	2	(6)	51	(4)
Commercial mortgage-backed	31	-	-	31	-
Asset-backed securities:					
Collateralized debt obligations	51	-	(18)	33	-
Other asset-backed	331	1	(17)	315	-
Total fixed-maturity investments	5,797	131	(172)	5,756	(89)
Money market securities	351	-	-	351	-
Perpetual debt and equity securities	12	1	-	13	-
Total AFS investments	$ 6,160	$ 132	$ (172)	$6,120	$ (89)
HTM Investments					
Assets of consolidated VIEs:					
Corporate obligations	$ 2,689	$ 24	$ (312)	$2,401	$ -
Total HTM investments	$ 2,689	$ 24	$ (312)	$2,401	$ -

(1) - Represents unrealized gains or losses on OTTI securities recognized in AOCI, which includes the non-credit component of impairments, as well as all subsequent changes in fair value of such impaired securities reported in AOCI.

The following table presents the distribution by contractual maturity of AFS and HTM fixed-maturity securities at amortized cost and fair value as of September 30, 2016. Contractual maturity may differ from expected maturity as borrowers may have the right to call or prepay obligations.

	AFS Securities		HTM Securities Consolidated VIEs	
In millions	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 499	$ 499	$ -	$ -
Due after one year through five years	1,685	1,720	-	-
Due after five years through ten years	960	934	-	-
Due after ten years	1,311	1,462	890	573
Mortgage-backed and asset-backed	1,422	1,422	-	-
Total fixed-maturity investments	$ 5,877	$6,037	$ 890	$ 573

Deposited and Pledged Securities

The fair value of securities on deposit with various regulatory authorities as of September 30, 2016 and December 31, 2015 was $11 million and $10 million, respectively. These deposits are required to comply with state insurance laws.

Pursuant to the Company's tax sharing agreement, securities held by MBIA Inc. in the Tax Escrow Account are included as "Investments pledged as collateral, at fair value" on the Company's consolidated balance sheets.

Investment agreement obligations require the Company to pledge securities as collateral. Securities pledged in connection with investment agreements may not be repledged by the investment agreement counterparty. As of September 30, 2016 and December 31, 2015, the fair value of securities pledged as collateral for these investment agreements approximated $413 million and $457 million, respectively. The Company's collateral as of September 30, 2016 consisted principally of U.S. Treasury and government agency and state and municipal bonds, and was primarily held with major U.S. banks. Additionally, the Company pledged cash and money market securities as collateral under investment agreements in the amount of $19 million and $12 million as of September 30, 2016 and December 31, 2015, respectively.

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MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Impaired Investments

The following tables present the gross unrealized losses related to AFS and HTM investments as of September 30, 2016 and December 31, 2015:

	September 30, 2016					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 180	$ (1)	$ -	$ -	$ 180	$ (1)
State and municipal bonds	88	(1)	17	(2)	105	(3)
Foreign governments	6	-	1	(1)	7	(1)
Corporate obligations	214	(2)	56	(79)	270	(81)
Mortgage-backed securities:						
Residential mortgage-backed agency	81	-	134	(1)	215	(1)
Residential mortgage-backed non-agency	1	-	31	(6)	32	(6)
Commercial mortgage-backed	29	-	4	-	33	-
Asset-backed securities:						
Collateralized debt obligations	-	-	17	-	17	-
Other asset-backed	52	-	97	(7)	149	(7)
Total AFS investments	$ 651	$ (4)	$ 357	$ (96)	$1,008	$ (100)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$ -	$ -	$ 573	$ (317)	$ 573	$ (317)
Total HTM investments	$ -	$ -	$ 573	$ (317)	$ 573	$ (317)

	December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
In millions	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
AFS Investments						
Fixed-maturity investments:						
U.S. Treasury and government agency	$ 434	$ (2)	$ 50	$ (1)	$ 484	$ (3)
State and municipal bonds	536	(11)	42	(3)	578	(14)
Foreign governments	32	(2)	-	-	32	(2)
Corporate obligations	693	(14)	78	(89)	771	(103)
Mortgage-backed securities:						
Residential mortgage-backed agency	399	(4)	159	(5)	558	(9)
Residential mortgage-backed non-agency	24	(2)	17	(4)	41	(6)
Commercial mortgage-backed	25	-	1	-	26	-
Asset-backed securities:						
Collateralized debt obligations	2	-	29	(18)	31	(18)
Other asset-backed	242	(1)	34	(16)	276	(17)
Total fixed-maturity investments	2,387	(36)	410	(136)	2,797	(172)
Perpetual debt and equity securities	2	-	3	-	5	-
Total AFS investments	$2,389	$ (36)	$ 413	$ (136)	$2,802	$ (172)
HTM Investments						
Assets of consolidated VIEs:						
Corporate obligations	$1,093	$ (17)	$ 280	$ (295)	$1,373	$ (312)
Total HTM investments	$1,093	$ (17)	$ 280	$ (295)	$1,373	$ (312)

Gross unrealized losses on AFS securities decreased as of September 30, 2016 compared with December 31, 2015 primarily due to market price appreciation driven by lower interest rates. Gross unrealized losses on HTM securities increased as of September 30, 2016 compared with December 31, 2015 primarily due to widening credit spreads partially offset by lower interest rates.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

With the weighting applied on the fair value of each security relative to the total fair value, the weighted average contractual maturity of securities in an unrealized loss position as of September 30, 2016 and December 31, 2015 was 22 and 17 years, respectively. As of September 30, 2016 and December 31, 2015, there were 79 and 65 securities, respectively, that were in an unrealized loss position for a continuous twelve-month period or longer, of which, fair values of 17 and 22 securities, respectively, were below book value by more than 5%.

The following table presents the distribution of securities in an unrealized loss position for a continuous twelve-month period or longer where fair value was below book value by more than 5% as of September 30, 2016:

	AFS Securities			HTM Securities		
Percentage of Fair Value Below Book Value	Number of Securities	Book Value (in millions)	Fair Value (in millions)	Number of Securities	Book Value (in millions)	Fair Value (in millions)
> 5% to 15%	6	$ 6	$ 5	-	$ -	$ -
> 15% to 25%	5	78	64	-	-	-
> 25% to 50%	3	3	2	-	-	-
> 50%	2	104	26	1	575	270
Total	16	$ 191	$ 97	1	$ 575	$ 270

The following table presents the fair value and gross unrealized loss by credit rating category of ABS, MBS and corporate obligations included in the Company's consolidated AFS investment portfolio, as of September 30, 2016, for which fair value was less than amortized cost. The credit ratings are based on ratings from Moody's as of September 30, 2016 or an alternate ratings source, such as S&P, when a security is not rated by Moody's. For investments that are insured by various third-party guarantee insurers, the credit rating reflects the higher of the insurer's rating or the underlying bond's rating.

In millions	Aaa		Aa		A		Baa		Below Investment Grade		Not Rated		Total	
Asset Type	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
ABS	$ 70	$ -	$ 59	$ -	$ 3	$ -	$ 2	$ -	$ 32	$ (7)	$ -	$ -	$ 166	$ (7)
MBS	231	(1)	13	-	2	-	1	-	22	(3)	11	(3)	280	(7)
Corporate obligations	86	(1)	61	-	61	(1)	29	(1)	7	-	26	(78)	270	(81)
Total	$ 387	$ (2)	$ 133	$ -	$ 66	$ (1)	$ 32	$ (1)	$ 61	$ (10)	$ 37	$ (81)	$ 716	$ (95)

The total ABS, MBS and corporate obligations reported in the preceding table include those which are guaranteed by financial guarantors. In addition, the following table presents information on ABS and MBS guaranteed by the Company and third-party financial guarantors.

			Insured Securities Rated Below Investment Grade without the Effect of Guarantee	
Asset Type	Average Credit Rating with the Effect of Guarantee	Average Credit Rating without the Effect of Guarantee	(in millions) Fair Value	Percentage
ABS	Below Investment Grade	Below Investment Grade	$ 32	65%
MBS	Below Investment Grade	Below Investment Grade	$ 18	100%

Refer to the table within the OTTI section of this note for information on the insured securities included in the table above.

The Company concluded that it does not have the intent to sell securities in an unrealized loss position and it is more likely than not, that it would not have to sell these securities before recovery of their cost basis. In making this conclusion, the Company examined the cash flow projections for its investment portfolios, the potential sources and uses of cash in its businesses, and the cash resources available to its business other than sales of securities. It also considered the existence of any risk management or other plans as of September 30, 2016 that would require the sale of impaired securities. Impaired securities that the Company intends to sell before the expected recovery of such securities' fair values have been written down to fair value.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 7: Investments (continued)

Other-Than-Temporary Impairments

The Company's fixed-maturity securities for which fair value is less than amortized cost are reviewed quarterly in order to determine whether a credit loss exists. The portion of certain OTTI losses on fixed-maturity securities that does not represent credit losses is recognized in accumulated other comprehensive income (loss) ("AOCI"). Refer to "Note 8: Investments" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of the Company's policy for OTTI and its determination of credit loss. The following table presents the amount of credit loss impairments recognized in earnings on fixed-maturity securities held by MBIA as of the dates indicated, for which a portion of the OTTI losses was recognized in AOCI, and the corresponding changes in such amounts.

In millions	Three Months Ended September 30,		Nine Months Ended September 30,	
Credit Losses Recognized in Earnings Related to Other-Than-Temporary Impairments	2016	2015	2016	2015
Beginning balance	$ 26	$ 22	$ 26	$ 16
Additions for credit loss impairments recognized in the current period on securities previously impaired	-	3	-	9
Ending balance	$ 26	$ 25	$ 26	$ 25

The Company does not recognize OTTI on securities insured by MBIA Corp. and National since those securities, whether or not owned by the Company, are evaluated for impairment in accordance with its loss reserving policy. The following table provides information about securities held by the Company as of September 30, 2016 that were in an unrealized loss position and insured by a financial guarantor, along with the amount of insurance loss reserves corresponding to the par amount owned by the Company:

In millions	Fair Value	Unrealized Loss	Insurance Loss Reserve (2)
Asset-backed:			
MBIA(1)	$ 49	$ (7)	$ 3
Mortgage-backed:			
MBIA(1)	17	(3)	16
Other:			
MBIA(1)	8	(1)	-
Total	$ 74	$ (11)	$ 19

(1) - Includes investments insured by MBIA Corp. and National.

(2) - Insurance loss reserve estimates are based on the proportion of par value owned to the total amount of par value insured.

Sales of Available-for-Sale Investments

Gross realized gains and losses are recorded within "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations. The increase in proceeds and net gains on the sales of investments for the three months ended September 30, 2016 compared with the same period of 2015 was primarily due to sales as a result of favorable market conditions. The increase in proceeds and net gains on the sales of investments for the nine months ended September 30, 2016 compared with the same period of 2015 was primarily due to sales as a result of favorable market conditions and to generate liquidity for payments on certain Puerto Rico exposures. The proceeds and the gross realized gains and losses from sales of fixed-maturity securities held as AFS for the three and nine months ended September 30, 2016 and 2015 are as follows:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Proceeds from sales	$ 848	$ 251	$ 1,785	$ 630
Gross realized gains	$ 33	$ 6	$ 70	$ 14
Gross realized losses	$ -	$ (2)	$ (18)	$ (11)

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments

Overview

MBIA has entered into derivative instruments through its financial guarantee of CDS and certain other derivative contracts for purposes of managing risks associated with existing assets and liabilities. In certain instances, the Company purchased or issued securities that contain embedded derivatives that were separated from the host contract and accounted for as derivative instruments. In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related security. Derivative instruments are recorded at fair value on the Company's consolidated balance sheets with the changes in fair value recorded on the Company's consolidated statements of operations within "Unrealized gains (losses) on insured derivatives," for the insured derivatives, or "Net gains (losses) on financial instruments at fair value and foreign exchange" for the embedded derivatives. Refer to "Note 6: Fair Value of Financial Instruments" for the method of determining the fair value of derivative instruments.

U.S. Public Finance Insurance

The Company's derivative exposure within its U.S. public finance insurance operations primarily consists of insured interest rate and inflation-linked swaps related to insured U.S. public finance debt issues. These derivatives do not qualify for the financial guarantee scope exception and are accounted for as derivative instruments.

Corporate

The Company has entered into derivative instruments primarily consisting of interest rate swaps. Interest rate swaps are entered into to manage the risks associated with fluctuations in interest rates or fair values of certain contracts.

Changes in the fair value of these derivatives are recorded on the Company's consolidated statements of operations within "Net gains (losses) on financial instruments at fair value and foreign exchange."

International and Structured Finance Insurance

The Company has entered into derivative instruments that it viewed as an extension of its core financial guarantee business that do not qualify for the financial guarantee scope exception and, therefore, are accounted for as derivative instruments. These insured CDS contracts, primarily referencing corporate obligations, ABS, RMBS, CMBS, commercial real estate loans and CDOs, are intended to be held for the entire term of the contract absent a negotiated settlement with the counterparty. The Company no longer insures new CDS contracts. The Company's derivative exposure within its international and structured finance insurance segment also includes insured interest rate and inflation-linked swaps related to insured debt issues.

Changes in the fair value of derivatives, excluding insured derivatives, are recorded each period in current earnings within "Net gains (losses) on financial instruments at fair value and foreign exchange." Changes in the fair value of insured derivatives are recorded each period in current earnings within "Net change in fair value of insured derivatives." The net change in the fair value of the Company's insured derivatives has two primary components: (i) realized gains (losses) and other settlements on insured derivatives and (ii) unrealized gains (losses) on insured derivatives. "Realized gains (losses) and other settlements on insured derivatives" include (i) premiums received and receivable on sold CDS contracts, (ii) premiums paid and payable to reinsurers in respect to CDS contracts, (iii) net amounts received or paid on reinsurance commutations, (iv) losses paid and payable to CDS contract counterparties due to the occurrence of a credit event or settlement agreement, (v) losses recovered and recoverable on purchased CDS contracts due to the occurrence of a credit event or settlement agreement and (vi) fees relating to CDS contracts. "Unrealized gains (losses) on insured derivatives" includes all other changes in fair value of the insured derivative contracts.

The Company has also entered into a derivative contract as a result of a commutation occurring in 2014. Changes in the fair value of the Company's non-insured derivative are included in "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

Variable Interest Entities

VIEs consolidated by the Company have entered into derivative instruments consisting of interest rate swaps, interest rate caps and cross currency swaps. Interest rate swaps and interest rate caps are entered into to mitigate the risks associated with fluctuations in interest rates or fair values of certain contracts. Cross currency swaps are entered into to manage the variability in cash flows resulting from fluctuations in foreign currency rates.

Credit Derivatives Sold

The following tables present information about credit derivatives sold by the Company's insurance operations that were outstanding as of September 30, 2016 and December 31, 2015. Credit ratings represent the lower of underlying ratings assigned to the collateral by Moody's, S&P or MBIA.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

$ in millions	As of September 30, 2016							
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	3.9 Years	$ 103	$ -	$ 115	$ -	$ 521	$ 739	$ (85)
Insured swaps	15.6 Years	-	145	2,158	1,186	20	3,509	(2)
Total notional		$ 103	$ 145	$2,273	$1,186	$ 541	$4,248	
Total fair value		$ -	$ -	$ (1)	$ (1)	$ (85)		$ (87)

$ in millions	As of December 31, 2015							
		Notional Value						
Credit Derivatives Sold	Weighted Average Remaining Expected Maturity	AAA	AA	A	BBB	Below Investment Grade	Total Notional	Fair Value Asset (Liability)
Insured credit default swaps	2.1 Years	$1,947	$ -	$ 300	$ -	$ 961	$3,208	$ (85)
Insured swaps	16.5 Years	-	109	2,715	940	22	3,786	(3)
Total notional		$1,947	$ 109	$3,015	$ 940	$ 983	$6,994	
Total fair value		$ -	$ -	$ (4)	$ (2)	$ (82)		$ (88)

Internal credit ratings assigned by MBIA on the underlying collateral are derived by the Company's surveillance group. In assigning an internal rating, current status reports from issuers and trustees, as well as publicly available transaction-specific information, are reviewed. Also, where appropriate, cash flow analyses and collateral valuations are considered. The maximum potential amount of future payments (undiscounted) on CDS contracts are estimated as the notional value plus any additional debt service costs, such as interest or other amounts owing on CDS contracts. The maximum amount of future debt service payments that MBIA may be required to make under these guarantees as of September 30, 2016 is $792 million. The maximum potential amount of future payments (undiscounted) on insured swaps are estimated as the notional value of such contracts.

MBIA may hold recourse provisions with third parties in derivative instruments through both reinsurance and subrogation rights. MBIA's reinsurance arrangements provide that in the event MBIA pays a claim under a guarantee of a derivative contract, MBIA has the right to collect amounts from any reinsurers that have reinsured the guarantee on either a proportional or non-proportional basis, depending upon the underlying reinsurance agreement. MBIA may also have recourse through subrogation rights whereby if MBIA makes a claim payment, it may be entitled to any rights of the insured counterparty, including the right to any assets held as collateral.

Counterparty Credit Risk

The Company manages counterparty credit risk on an individual counterparty basis through master netting agreements covering derivative instruments in the corporate segment. These agreements allow the Company to contractually net amounts due from a counterparty with those amounts due to such counterparty when certain triggering events occur. The Company only executes swaps under master netting agreements, which typically contain mutual credit downgrade provisions that generally provide the ability to require assignment or termination in the event either MBIA or the counterparty is downgraded below a specified credit rating.

Under these agreements, the Company may receive or provide cash, U.S. Treasury or other highly rated securities to secure counterparties' exposure to the Company or its exposure to counterparties, respectively. Such collateral is available to the holder to pay for replacing the counterparty in the event that the counterparty defaults. As of September 30, 2016, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of $37 million. Of this amount, $18 million is netted within "Derivative liabilities" and $19 million is included within "Other liabilities" as cash collateral netted against accrued interest on derivative liabilities. As of December 31, 2015, the Company did not hold cash collateral to derivative counterparties but posted cash collateral to derivative counterparties of $50 million. Of this amount, $31 million is netted within "Derivative liabilities" and $19 million is included within "Other liabilities" as cash collateral netted against accrued interest on derivative liabilities. As of September 30, 2016 and December 31, 2015, the Company had securities with a fair value of $341 million and $259 million, respectively, posted to derivative counterparties and these amounts are included within "Fixed-maturity securities held as available-for-sale, at fair value" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

As of September 30, 2016 and December 31, 2015, the fair value on one Credit Support Annex ("CSA") was $3 million. This CSA governs collateral posting requirements between MBIA and its derivative counterparties. The Company did not receive collateral due to the Company's credit rating, which was below the CSA minimum credit ratings level for holding counterparty collateral. As of September 30, 2016, the counterparty was rated A1 by Moody's and A by S&P, and as of December 31, 2015, the counterparty was rated A2 by Moody's and A by S&P.

Financial Statement Presentation

The fair value of amounts recognized for eligible derivative contracts executed with the same counterparty under a master netting agreement, including any cash collateral that may have been received or posted by the Company, is presented on a net basis in accordance with accounting guidance for the offsetting of fair value amounts related to derivative instruments. Insured CDS and insured swaps are not subject to master netting agreements. VIE derivative assets and liabilities are not presented net of any master netting agreements. Counterparty netting of derivative assets and liabilities offsets balances in "Interest rate swaps" as of September 30, 2016 and December 31, 2015.

As of September 30, 2016, the total fair value of the Company's derivative assets, after counterparty netting of $1 million, was $20 million, of which $16 million was reported within "Other assets" and "Other assets" presented under "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets. Embedded derivatives of $4 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

As of September 30, 2016, the total fair value of the Company's derivative liabilities, after counterparty netting of $1 million and cash collateral posted by the Company of $18 million, was $403 million, of which $383 million was reported within "Derivative liabilities" on the Company's consolidated balance sheets. Embedded derivatives of $20 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of September 30, 2016:

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 739	Other assets	$ -	Derivative liabilities	$ (85)
Insured swaps	3,509	Other assets	-	Derivative liabilities	(2)
Interest rate swaps	1,067	Other assets	4	Derivative liabilities	(296)
Interest rate swaps-embedded	403	Medium-term notes	4	Medium-term notes	(20)
Currency swaps-VIE	73	Other assets-VIE	-	Derivative liabilities-VIE	-
All other	83	Other assets	-	Derivative liabilities	(19)
All other-VIE	110	Other assets-VIE	13	Derivative liabilities-VIE	-
All other-embedded	5	Other investments	-	Other investments	-
Total non-designated derivatives	$ 5,989		$ 21		$ (422)

(1) - In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related host contract.

As of December 31, 2015, the total fair value of the Company's derivative assets, after counterparty netting of $1 million, was $19 million, of which $14 million was reported within "Other assets" and "Other Assets" presented under "Assets of consolidated variable interest entities" on the Company's consolidated balance sheets. Embedded derivatives of $5 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

As of December 31, 2015, the total fair value of the Company's derivative liabilities, after counterparty netting of $1 million and cash collateral posted by the Company of $31 million, was $374 million, of which $359 million was reported within "Derivative liabilities" and "Derivative liabilities" presented under "Liabilities of consolidated variable interest entities" on the Company's consolidated balance sheets. Embedded derivatives of $15 million were reported within "Medium-term notes" on the Company's consolidated balance sheets.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 8: Derivative Instruments (continued)

The following table presents the total fair value of the Company's derivative assets and liabilities by instrument and balance sheet location, before counterparty netting and posting of cash collateral, as of December 31, 2015:

In millions		Derivative Assets (1)		Derivative Liabilities (1)	
Derivative Instruments	Notional Amount Outstanding	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Not designated as hedging instruments:					
Insured credit default swaps	$ 3,208	Other assets	$ -	Derivative liabilities	$ (85)
Insured swaps	3,786	Other assets	-	Derivative liabilities	(3)
Interest rate swaps	1,153	Other assets	4	Derivative liabilities	(240)
Interest rate swaps-VIE	899	Other assets-VIE	-	Derivative liabilities-VIE	(45)
Interest rate swaps-embedded	396	Medium-term notes	5	Medium-term notes	(15)
Currency swaps-VIE	83	Other assets-VIE	11	Derivative liabilities-VIE	-
All other	83	Other assets	-	Derivative liabilities	(18)
All other-VIE	241	Other assets-VIE	-	Derivative liabilities-VIE	-
All other-embedded	10	Other investments	-	Other investments	-
Total non-designated derivatives	$ 9,859		$ 20		$ (406)

(1) - In accordance with the accounting guidance for derivative instruments and hedging activities, the balance sheet location of the Company's embedded derivative instruments is determined by the location of the related host contract.

The following table presents the effect of derivative instruments on the consolidated statements of operations for the three months ended September 30, 2016 and 2015:

In millions		Three Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2016	2015
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ 20	$ 21
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(4)	(18)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(1)	(45)
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	-	8
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	4	4
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	2	(1)
Total		$ 21	$ (31)

The following table presents the effect of derivative instruments on the consolidated statements of operations for the nine months ended September 30, 2016 and 2015:

In millions		Nine Months Ended September 30,	
Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2016	2015
Insured credit default swaps	Unrealized gains (losses) on insured derivatives	$ -	$ 121
Insured credit default swaps	Realized gains (losses) and other settlements on insured derivatives	(20)	(30)
Interest rate swaps	Net gains (losses) on financial instruments at fair value and foreign exchange	(86)	(112)
Interest rate swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	8	18
Currency swaps-VIE	Net gains (losses) on financial instruments at fair value and foreign exchange-VIE	3	5
All other	Net gains (losses) on financial instruments at fair value and foreign exchange	(1)	2
Total		$ (96)	$ 4

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 9: Income Taxes

The Company's income taxes and the related effective tax rates for the three and nine months ended September 30, 2016 and 2015 are as follows:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Income (loss) before income taxes	$ 55	$ (55)	$ (101)	$ 150
Provision (benefit) for income taxes	$ 24	$ (20)	$ (28)	$ 52
Effective tax rate	43.6%	36.4%	27.7%	34.7%

For the nine months ended September 30, 2016, the Company's effective tax rate applied to its loss before income taxes is less than the U.S. statutory tax rate primarily due to a valuation allowance adjustment, partially offset by tax exempt interest income and the fluctuation of the value of nontaxable warrants issued by the Company. For the nine months ended September 30, 2015, the Company's effective tax rate applied to its income before income taxes approximates the U.S. statutory effective tax rate.

The Company's 2015 provision for income taxes for interim financial periods was not based on an estimated annual effective rate due to the variability in fair value of its derivative liabilities, which prevents the Company from projecting a reliable estimated annual effective tax rate.

Deferred Tax Asset, Net of Valuation Allowance

The Company has come to the conclusion that it is more likely than not that its net deferred tax asset, other than that portion of the asset related to foreign tax credits which have been claimed on its prior years' tax returns and are being carried forward, will be fully realized after weighing all positive and negative evidence available as required under GAAP. The positive evidence that was considered included the cumulative operating income the Company has earned over the last three years, and the significant unearned premium income to be included in taxable income. The positive evidence outweighs any negative evidence that exists. As such, the Company believes that no valuation allowance is necessary in connection with this deferred tax asset. The Company will continue to analyze the need for a valuation allowance on a quarterly basis.

However, as the prediction of adequate future taxable income within the carryforward period is not assured, the Company has concluded that a valuation allowance for the foreign tax credits being carried forward is appropriate. As of September 30, 2016, the valuation allowance was $8 million. As of December 31, 2015, there was no valuation allowance.

It is also possible that some or all of the Company's foreign tax credits expected to offset U.S. taxes on unremitted foreign earnings could ultimately expire unused, especially if a sale of the Company's UK operations occurs. Therefore, a valuation allowance to reduce the Company's U.S. deferred tax asset related to foreign tax credits may be required if circumstances evolve that would accelerate the recognition of unremitted foreign earnings for U.S. tax purposes.

In accordance with accounting guidance for income taxes, the netting of deferred taxes between different taxpaying jurisdictions is not permitted. As of September 30, 2016, there was also a non-U.S. deferred tax liability of $41 million included in "Other liabilities" on the Company's consolidated balance sheet.

Tax Sharing Agreement

The Company has a tax sharing agreement among its members effective January 1, 1987. The agreement was amended and restated effective September 8, 2011 to change the method of calculating each domestic insurer's tax liability to the method permitted by paragraph 3(a) of Department Circular Letter #33 (1979). The agreement was submitted to the NYSDFS for review and non-disapproval pursuant to Section 1505 of the New York Insurance Law. Refer to "Note 2: Significant Accounting Policies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for further discussion on the Company's tax sharing agreement.

Accounting for Uncertainty in Income Taxes

The Company's policy is to record and disclose any change in unrecognized tax benefits ("UTB") and related interest and/or penalties to income tax in the consolidated statements of operations. The Company includes interest as a component of income tax expense. As of September 30, 2016 and December 31, 2015, the Company had no UTB.

MBIA and its U.S. subsidiaries file a U.S. consolidated federal income tax return. Federal income tax returns through 2011 have been examined or surveyed.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 9: Income Taxes (continued)

As of September 30, 2016, the Company's net operating loss ("NOL") is approximately $2.7 billion. The NOL will expire between tax years 2029 through 2034. As of September 30, 2016, the Company has an alternative minimum tax credit carryforward of $26 million, which does not expire.

Note 10: Business Segments

As defined by segment reporting, an operating segment is a component of a company (i) that engages in business activities from which it earns revenue and incurs expenses, (ii) whose operating results are regularly reviewed by the Chief Operating Decision Maker to assess the performance of the segment and to make decisions about the allocation of resources to the segment and, (iii) for which discrete financial information is available.

The Company manages its businesses across three operating segments: 1) U.S. public finance insurance; 2) corporate; and 3) international and structured finance insurance. The Company's U.S. public finance insurance business is operated through National and its international and structured finance insurance business is operated through MBIA Corp. Effective January 1, 2015, the Company exited its advisory services business with the completed sale of Cutwater.

The following sections provide a description of each of the Company's reportable operating segments.

U.S. Public Finance Insurance

The Company's U.S. public finance insurance segment is principally conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, U.S. public finance insured obligations when due. The obligations are not subject to acceleration, except that National may have the right, at its discretion, to accelerate insured obligations upon default or otherwise. National issues financial guarantees for municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utilities, airports, health care institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

Corporate

The Company's corporate segment consists of general corporate activities, including providing general support services to MBIA's other operating businesses and asset and capital management. General support services are provided by the Company's service company, MBIA Services Corporation ("MBIA Services"). MBIA Services provides various support services including, among others, management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, on a fee-for-service basis. Capital management includes activities related to servicing obligations issued by MBIA Inc. and its subsidiaries, MBIA Global Funding, LLC ("GFL") and MBIA Investment Management Corp. ("IMC"). MBIA Inc. issued debt to finance the operations of the MBIA group. GFL raised funds through the issuance of MTNs with varying maturities, which were in turn guaranteed by MBIA Corp. GFL lent the proceeds of these MTN issuances to MBIA Inc. IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. The company has ceased issuing these MTNs and investment agreements and the outstanding liability balances and corresponding asset balances have declined over time as liabilities mature, terminate or are retired. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

International and Structured Finance Insurance

The Company's international and structured finance insurance segment is principally conducted through MBIA Corp. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of principal of, and interest or other amounts owing on, non-U.S. public finance and global structured finance insured obligations when due, or in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise. MBIA Corp. insures the investment contracts written by MBIA Inc., and if MBIA Inc. were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Corp. would make such payments. MBIA Corp. insures debt obligations of the following affiliates:

- MBIA Inc.;
- GFL;
- IMC; and
- LaCrosse Financial Products, LLC, a wholly-owned affiliate, in which MBIA Insurance Corporation has written insurance policies guaranteeing the obligations under CDS, including termination payments that may become due upon certain events including the insolvency or payment default of the financial guarantor or the CDS issuer.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

MBIA Corp. insures non-U.S. public finance and global structured finance insured obligations, including asset-backed obligations. MBIA Corp. has insured sovereign-related and sub-sovereign bonds, utilities, privately issued bonds used for the financing of projects that include toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from expected cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. MBIA Corp. has also written policies guaranteeing obligations under certain other derivative contracts, including termination payments that may become due upon certain insolvency or payment defaults of the financial guarantor or the issuer. The Company is no longer insuring new credit derivative contracts except for transactions related to the restructuring or reduction of existing derivative exposure. MBIA Corp. has not written any meaningful amount of business since 2008.

Segments Results

The following tables provide the Company's segment results for the three months ended September 30, 2016 and 2015:

	Three Months Ended September 30, 2016				
In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
Revenues[1]	$ 84	$ 6	$ 48	$ -	$ 138
Net change in fair value of insured derivatives	-	-	16	-	16
Net gains (losses) on financial instruments at fair value and foreign exchange	31	(2)	9	-	38
Other net realized gains (losses)	-	(2)	-	-	(2)
Revenues of consolidated VIEs	-	-	13	-	13
Inter-segment revenues[2]	6	15	12	(33)	-
Total revenues	121	17	98	(33)	203
Losses and loss adjustment	28	-	22	-	50
Operating	9	16	17	-	42
Interest	-	22	27	-	49
Expenses of consolidated VIEs	-	-	7	-	7
Inter-segment expenses[2]	18	2	13	(33)	-
Total expenses	55	40	86	(33)	148
Income (loss) before income taxes	66	(23)	12	-	55
Provision (benefit) for income taxes	22	(8)	7	3	24
Net income (loss)	$ 44	$ (15)	$ 5	$ (3)	$ 31
Identifiable assets	$ 5,343	$ 2,407	$ 7,020	$ (2,983)[3]	$ 11,787

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.

(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
	Three Months Ended September 30, 2015				
Revenues[1]	$ 90	$ 5	$ 28	$ -	$ 123
Net change in fair value of insured derivatives	-	-	3	-	3
Net gains (losses) on financial instruments at fair value and foreign exchange	1	(45)	(11)	-	(55)
Net investment losses related to other-than-temporary impairments	(3)	-	-	-	(3)
Other net realized gains (losses)	-	(1)	-	-	(1)
Revenues of consolidated VIEs	-	-	25	-	25
Inter-segment revenues[2]	8	16	15	(39)	-
Total revenues	96	(25)	60	(39)	92
Losses and loss adjustment	(7)	-	46	-	39
Operating	11	18	17	-	46
Interest	-	24	25	-	49
Expenses of consolidated VIEs	-	-	13	-	13
Inter-segment expenses[2]	21	1	17	(39)	-
Total expenses	25	43	118	(39)	147
Income (loss) before income taxes	71	(68)	(58)	-	(55)
Provision (benefit) for income taxes	25	(25)	(20)	-	(20)
Net income (loss)	$ 46	$ (43)	$ (38)	$ -	$ (35)
Identifiable assets	$ 5,432	$ 2,514	$ 10,084	$ (2,979)[3]	$ 15,051

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.

(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

The following tables provide the Company's segment results for the nine months ended September 30, 2016 and 2015:

In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
	Nine Months Ended September 30, 2016				
Revenues[1]	$ 250	$ 17	$ 97	$ -	$ 364
Net change in fair value of insured derivatives	-	-	(20)	-	(20)
Net gains (losses) on financial instruments at fair value and foreign exchange	65	(105)	23	-	(17)
Net investment losses related to other-than-temporary impairments	-	(1)	-	-	(1)
Net gains (losses) on extinguishment of debt	-	5	-	-	5
Other net realized gains (losses)	-	(4)	1	-	(3)
Revenues of consolidated VIEs	-	-	25	-	25
Inter-segment revenues[2]	16	43	35	(94)	-
Total revenues	331	(45)	161	(94)	353
Losses and loss adjustment	46	-	103	-	149
Operating	29	52	46	-	127
Interest	-	69	79	-	148
Expenses of consolidated VIEs	-	-	30	-	30
Inter-segment expenses[2]	52	3	38	(93)	-
Total expenses	127	124	296	(93)	454
Income (loss) before income taxes	204	(169)	(135)	(1)	(101)
Provision (benefit) for income taxes	69	(50)	(48)	1	(28)
Net income (loss)	$ 135	$ (119)	$ (87)	$ (2)	$ (73)
Identifiable assets	$ 5,343	$ 2,407	$ 7,020	$ (2,983)[3]	$ 11,787

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.

(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 10: Business Segments (continued)

In millions	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Eliminations	Consolidated
	Nine Months Ended September 30, 2015				
Revenues(1)	$ 288	$ 18	$ 86	$ -	$ 392
Net change in fair value of insured derivatives	-	-	91	-	91
Net gains (losses) on financial instruments at fair value and foreign exchange	4	35	(19)	-	20
Net investment losses related to other-than-temporary impairments	(9)	(1)	-	-	(10)
Net gains (losses) on extinguishment of debt	-	(1)	-	-	(1)
Other net realized gains (losses)	(4)	22	-	-	18
Revenues of consolidated VIEs	-	-	46	-	46
Inter-segment revenues(2)	26	53	48	(127)	-
Total revenues	305	126	252	(127)	556
Losses and loss adjustment	(5)	-	84	-	79
Operating	29	56	54	-	139
Interest	-	73	76	-	149
Expenses of consolidated VIEs	-	-	39	-	39
Inter-segment expenses(2)	67	3	50	(120)	-
Total expenses	91	132	303	(120)	406
Income (loss) before income taxes	214	(6)	(51)	(7)	150
Provision (benefit) for income taxes	74	-	(19)	(3)	52
Net income (loss)	$ 140	$ (6)	$ (32)	$ (4)	$ 98
Identifiable assets	$ 5,432	$ 2,514	$ 10,084	$ (2,979)(3)	$ 15,051

(1) - Represents the sum of third-party financial guarantee net premiums earned, net investment income, insurance-related fees and reimbursements and other fees.

(2) - Represents intercompany premium income and expense and intercompany interest income and expense pertaining to intercompany receivables and payables.

(3) - Consists of intercompany deferred income taxes, reinsurance balances and repurchase agreements.

Premiums on financial guarantees and insured derivatives reported within the Company’s insurance segments are generated within and outside the U.S. The following table summarizes premiums earned on financial guarantees and insured derivatives by geographic location of risk for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Total premiums earned:				
United States	$ 59	$ 71	$ 176	$ 232
United Kingdom	6	8	20	23
Europe (excluding United Kingdom)	1	2	4	4
Internationally diversified	3	1	3	3
Other Americas	6	7	20	20
Asia	1	-	2	2
Other	1	1	3	4
Total	$ 77	$ 90	$ 228	$ 288

Note 11: Earnings Per Share

Earnings per share is calculated using the two-class method in which earnings are allocated to common stock and participating securities based on their rights to receive nonforfeitable dividends or dividend equivalents. The Company grants restricted stock and restricted stock units to certain employees and non-employee directors in accordance with the Company’s long-term incentive programs, which entitle the participants to receive nonforfeitable dividends or dividend equivalents during the vesting period on the same basis as those dividends are paid to common shareholders. These unvested stock awards represent participating securities. During periods of net income, the calculation of earnings per share exclude the income attributable to participating securities in the numerator and the dilutive impact of these securities from the denominator. During periods of net loss, no effect is given to participating securities in the numerator and the denominator excludes the dilutive impact of these securities since they do not share in the losses of the Company.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 11: Earnings Per Share (continued)

Basic earnings per share excludes dilution and is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the dilutive effect of all stock options, warrants and unvested restricted stock outstanding during the period that could potentially result in the issuance of common stock. The dilution from stock options, warrants and unvested restricted stock are calculated by applying the two-class method and using the treasury stock method. The treasury stock method assumes the proceeds from the exercise of stock options and warrants or the unrecognized compensation expense from unvested restricted stock will be used to purchase shares of the Company's common stock at the average market price during the period. During periods of net loss, stock options, warrants and unvested restricted stock are excluded from the calculation because they would have an antidilutive effect. Therefore, in periods of net loss, the calculation of basic and diluted earnings per share would result in the same value. For the three months ended September 30, 2016 and 2015, there were 16,109,462 and 18,807,517, respectively, of stock options, warrants and unvested restricted stock outstanding that were antidilutive. For the nine months ended September 30, 2016 and 2015, there were 17,323,421 and 17,975,504, respectively, of stock options, warrants and unvested restricted stock outstanding that were antidilutive.

The following table presents the computation of basic and diluted earnings per share for the three and nine months ended September 30, 2016 and 2015:

In millions except share and per share amounts	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Basic earnings per share:				
Net income (loss)	$ 31	$ (35)	$ (73)	$ 98
Less: undistributed earnings allocated to participating securities	1	—	—	3
Net income (loss) available to common shareholders	30	(35)	(73)	95
Basic weighted average shares (1)	131,633,411	155,239,723	133,368,752	169,610,370
Net income (loss) per basic common share:	$ 0.23	$ (0.23)	$ (0.55)	$ 0.56
Diluted earnings per share:				
Net income (loss)	$ 31	$ (35)	$ (73)	$ 98
Less: undistributed earnings allocated to participating securities	1	—	—	3
Net income (loss) available to common shareholders	30	(35)	(73)	95
Basic weighted average shares (1)	131,633,411	155,239,723	133,368,752	169,610,370
Effect of common stock equivalents:				
Stock options	408,656	—	—	956,016
Diluted weighted average shares	132,042,067	155,239,723	133,368,752	170,566,386
Net income (loss) per diluted common share:	$ 0.23	$ (0.23)	$ (0.55)	$ 0.55

(1) - Includes 955,217 and 600,826 of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the three months ended September 30, 2016 and 2015, respectively. Includes 867,160 and 619,889 of participating securities that met the service condition and were eligible to receive nonforfeitable dividends or dividend equivalents for the nine months ended September 30, 2016 and 2015, respectively.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 12: Accumulated Other Comprehensive Income

The following table presents the changes in the components of AOCI for the nine months ended September 30, 2016:

In millions	Unrealized Gains (Losses) on AFS Securities, Net	Foreign Currency Translation, Net	Total
Balance, December 31, 2015	$ (22)	$ (39)	$ (61)
Other comprehensive income (loss) before reclassifications	137	(46)	91
Amounts reclassified from AOCI	5	-	5
Total other comprehensive income (loss)	142	(46)	96
Balance, September 30, 2016	$ 120	$ (85)	$ 35

The following table presents the details of the reclassifications from AOCI for the three and nine months ended September 30, 2016 and 2015:

In millions	Amounts Reclassified from AOCI				
	Three Months Ended September 30,		Nine Months Ended September 30,		
Details about AOCI Components	2016	2015	2016	2015	Affected Line Item on the Consolidated Statements of Operations
Unrealized gains (losses) on AFS securities:					
Realized gains (losses) on sale of securities	$ 1	$ (5)	$ (3)	$ (6)	Net gains (losses) on financial instruments at fair value and foreign exchange
OTTI	-	(3)	-	(3)	Net investment losses related to OTTI
Amortization on securities	-	(1)	(4)	(4)	Net investment income
	1	(9)	(7)	(13)	Income (loss) before income taxes
	1	(2)	(2)	(4)	Provision (benefit) for income taxes
Total reclassifications for the period	$ -	$ (7)	$ (5)	$ (9)	Net income (loss)

Note 13: Commitments and Contingencies

The following commitments and contingencies provide an update of those discussed in "Note 21: Commitments and Contingencies" in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and should be read in conjunction with the complete descriptions provided in the aforementioned Form 10-K.

Litigation

MBIA Insurance Corp. v. Credit Suisse Securities (USA) LLC, et al.; Index No. 603751/2009 (N.Y. Sup. Ct., N.Y. County)

Expert discovery concluded in March of 2016. The parties have completed their briefing on their respective summary judgment motions and argument is scheduled for November 15, 2016.

MBIA Insurance Corp. v. J.P. Morgan Securities LLC (f/k/a Bear, Stearns & Co. Inc.); Index No. 64676/2012 (N.Y. Sup. Ct., County of Westchester)

On June 6, 2016, the court denied J.P. Morgan's motion for summary judgment. J.P. Morgan filed a notice of appeal of that ruling on July 6, 2016. On November 2, 2016, the Second Department of the Appellate Division of the New York State Supreme Court (the "Second Department") issued a decision on J.P. Morgan's separate appeal, and MBIA Corp.'s cross appeal, from the trial court's Order of September 18, 2014, which had granted MBIA's motion for leave to amend its complaint to assert a cause of action for fraudulent concealment, and denied its motion to amend its complaint to assert cause of action alleging material misrepresentation in the procurement of an insurance contract brought under common law as informed by NYIL Section 3105. The Second Department decision affirmed the Order as it pertained to allowing the assertion of the fraudulent concealment claim, and reversed it as to the denial of the motion to add the claim of material misrepresentation in the procurement of an insurance contract.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 13: Commitments and Contingencies (continued)

Patriarch Partners XV, LLC v. U.S. Bank National Association and MBIA Insurance Corp.; 16 Civ. 7128 (S.D.N.Y. September 13, 2016) (Rakoff, J.)

On September 12, 2016, Patriarch Partners XV, LLC and Octaluna LLC commenced an action (with application for injunctive relief) in New York State Supreme Court against Defendants U.S. Bank National Association and MBIA Insurance Corporation seeking to enjoin a proposed September 15, 2016 sale of collateral under the Zohar I Indenture. The complaint and application argued that a temporary restraining order, followed by a preliminary and then permanent injunction, were necessary to prevent the plaintiffs from sustaining irreparable harm from the sale process. On September 13, 2016, U.S. Bank National Association removed the action to the United States District Court for the Southern District of New York. On October 18, 2016, Judge Jed S. Rakoff issued a ruling denying plaintiffs' motion for a preliminary injunction, and ordered that the Zohar I auction could be noticed and take place no earlier than November 23, 2016. On November 3, 2016, the defendants filed their respective answers to the operative complaint.

Ambac Bond Insurance Coverage Cases, Coordinated Proceeding Case No. JCCP 4555 (Super. Ct. of Cal., County of San Francisco)

Following an appeal of the dismissal of the plaintiff's anti-trust claim under California's Cartwright Act, the California Court of Appeal reinstated those claims against the bond insurer defendants on February 18, 2016. On April 8, 2016, Judge Mary E. Wiss recused and disqualified herself from further proceedings in the matter. On April 14, 2016, Judge Curtis E.A. Karnow was assigned to sit as the Coordination Trial Judge. On June 24, 2016, the defendants, including the MBIA parties, filed their answers to the complaints.

National Public Finance Guarantee Corporation v. Padilla, Civ. No. 16-cv-2101 (D.P.R. June 15, 2016) (Besosa, J.)

On June 15, 2016, National filed a complaint in federal court in Puerto Rico challenging the Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Law 21-2016 or the "Moratorium Act") as unconstitutional under the United States Constitution. On June 22, 2016, National filed a motion for partial summary judgment on its claim that the Moratorium Act is preempted by the federal Bankruptcy Code. On July 7, 2016, the Puerto Rico defendants filed a motion to stay the case pursuant to the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). The Puerto Rico defendants filed their response to National's motion for summary judgment on July 11, 2016. On July 18, 2016, National responded to the stay motion and also filed its reply brief in further support of its motion for summary judgment. The motion for summary judgment is now fully briefed and a decision is pending. The defendants filed their answer to the complaint on July 26, 2016. On August 22, 2016, the court granted the Puerto Rico's motion to stay the case pursuant to PROMESA's stay provision, and indicated that he would hold an evidentiary hearing on whether cause existed to lift the stay. That two day hearing ended on September 23, 2016. Post-hearing memoranda from all parties were filed on October 7, 2016. On October 21, 2016, the Oversight Board filed a motion seeking to intervene into the case and opposing National's motion to lift the PROMESA stay, while expressing no view on the merits of National's claims. On October 28, 2016, National responded to the motion.

For those aforementioned actions in which it is a defendant, the Company is defending against those actions and expects ultimately to prevail on the merits. There is no assurance, however, that the Company will prevail in these actions. Adverse rulings in these actions could have a material adverse effect on the Company's ability to implement its strategy and on its business, results of operations, cash flows and financial condition. At this stage of the litigation, there has not been a determination as to the amount, if any, of damages. Accordingly, the Company is not able to estimate any amount of loss or range of loss. The Company similarly can provide no assurance that it will be successful in those actions in which it is a plaintiff.

There are no other material lawsuits pending or, to the knowledge of the Company, threatened, to which the Company or any of its subsidiaries is a party.

Lease Commitments

The Company has a lease agreement for its headquarters in Purchase, New York. The initial lease term expires in 2030 with the option to terminate the lease in 2025 upon the payment of a termination amount. This lease agreement included an incentive amount to fund certain leasehold improvements, renewal options, escalation clauses and a free rent period. The lease agreement has been classified as an operating lease, and operating rent expense has been recognized on a straight-line basis since the second quarter of 2014.

MBIA Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)

Note 14: Subsequent Events

Refer to "Note 13: Commitments and Contingencies" for information about legal proceedings that occurred after September 30, 2016.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of financial condition and results of operations of MBIA Inc. should be read in conjunction with the consolidated financial statements and notes thereto included in this Form 10-Q. In addition, this discussion and analysis of financial condition and results of operations includes statements of the opinion of MBIA Inc.'s management which may be forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from historical earnings and those presently anticipated or projected. Refer to "Forward-Looking Statements" and "Risk Factors" in Part I, Item 1A of MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015 for a further discussion of risks and uncertainties.

INTRODUCTION

MBIA Inc., together with its consolidated subsidiaries, (collectively, "MBIA", the "Company", "we", "us", or "our") operates one of the largest financial guarantee insurance businesses in the industry. MBIA manages its business within three operating segments: 1) United States ("U.S.") public finance insurance; 2) corporate; and 3) international and structured finance insurance. Our U.S. public finance insurance business is primarily operated through National Public Finance Guarantee Corporation ("National"), our corporate segment is operated through MBIA Inc. and several of its subsidiaries, including our service company, MBIA Services Corporation ("MBIA Services") and our international and structured finance insurance business is primarily operated through MBIA Insurance Corporation and its subsidiaries ("MBIA Corp."). References to MBIA Inc. generally refer to activities within our corporate segment and, unless otherwise indicated or the context otherwise requires, references to "MBIA Corp." are to MBIA Insurance Corporation, together with its subsidiaries, MBIA UK Insurance Limited ("MBIA UK") and MBIA Mexico S.A. de C.V ("MBIA Mexico").

The primary objectives of our U.S. public finance insurance segment are to generate new insurance business in National, consistent with our portfolio management and return requirements, and to maximize the economics of our existing insured portfolio through effective surveillance and remediation. Our corporate segment consists of general corporate activities, including providing general support services to MBIA's other operating businesses and asset and capital management. MBIA Corp.'s primary objectives are to satisfy those claims of its policyholders, and to maximize future recoveries to its surplus note holders and, thereafter recoveries to preferred stock holders, if any. MBIA Corp. is executing this strategy by reducing and mitigating potential losses on its insurance exposures and pursuing various actions focused on maximizing the collection of recoveries. We do not expect to write new business in our international and structured finance insurance segment for the foreseeable future.

In September of 2016, MBIA Insurance Corporation announced that its wholly-owned subsidiary, MBIA UK (Holdings) Limited, entered into an agreement to sell MBIA UK to Assured Guaranty Corp. ("Assured"), a subsidiary of Assured Guaranty Ltd. (the "Sale Transaction"). The Sale Transaction consists of the transfer to the Company of notes issued by Zohar II 2005-1, Limited ("Zohar II") collateralized debt obligation ("CDO") (the "Zohar II Notes") with an aggregate outstanding principal amount of approximately $347 million ("Assured Zohar II Notes"), in exchange for the shares of MBIA UK and a cash payment to Assured of $23 million. The Sale Transaction is subject to certain closing conditions, including the receipt of regulatory approvals from the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") of the United Kingdom ("U.K."), the New York State Department of Financial Services ("NYSDFS") and the Maryland Insurance Administration.

The sale of MBIA UK is part of MBIA Corp.'s strategy to address the maturity of the Zohar II Notes on January 20, 2017 (the "Zohar Maturity Date"), which are insured by MBIA Corp. and had $770 million of insured gross par outstanding as of September 30, 2016. MBIA Insurance Corporation expects that on the Zohar Maturity Date, it will be required to pay a claim under its policy for the amount due on the Zohar II Notes (the "Zohar II Claim"). MBIA Insurance Corporation does not expect to have sufficient liquidity to pay such claim on the Zohar II Notes unless it arranges third-party financing to enable it to pay the claim. There is no assurance that the Sale Transaction will be completed, that third-party financing will be available, or that MBIA Corp.'s strategies will be successful. Accordingly, closing of this sale is uncertain. Should the Company satisfactorily resolve these uncertainties, the Sale Transaction is scheduled to close in early January of 2017. Refer to "Executive Overview – MBIA Corp." section for additional information on the MBIA UK transaction and Zohar II.

Effective on January 1, 2015, we exited our advisory business through the sale of Cutwater Holdings, LLC and its subsidiaries ("Cutwater") to a subsidiary of The Bank of New York Mellon Corporation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW

Financial Highlights

The following tables present our financial highlights. A detailed discussion of our financial results is presented within the "Results of Operations" section included herein. Refer to the "Capital Resources—Insurance Statutory Capital" section for a discussion of National's and MBIA Insurance Corporation's capital positions under statutory accounting principles ("U.S. STAT").

In millions except per share amounts and policies	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income (loss)	$ 31	$ (35)	$ (73)	$ 98
Net income (loss) per diluted share	$ 0.23	$ (0.23)	$ (0.55)	$ 0.55
Combined operating income [(1)]	$ 5	$ 24	$ 36	$ 77
Combined operating income per diluted share[(1)]	$ 0.04	$ 0.15	$ 0.28	$ 0.45
Gross par exposure insured	$ 339	$ 129	$ 706	$ 439
Number of policies written	39	19	96	33
Amount of shares repurchased	$ -	$ 119	$ 105	$ 297

(1) - Combined operating income (loss) and combined operating income (loss) per diluted share are non-GAAP measures. Refer to the following "Results of Operations" section for a discussion of operating income (loss) and operating income (loss) per diluted share and a reconciliation of GAAP net income to operating income (loss) and GAAP net income per diluted share to operating income (loss) per diluted share.

In millions except per share amounts	As of September 30, 2016	As of December 31, 2015
Shareholders' equity of MBIA Inc.	$ 3,658	$ 3,729
Book value per share	26.95	24.61
Adjusted book value per share[(1)]	32.39	29.69

(1) - Adjusted book value per share is a non-GAAP measure. Refer to the following "Results of Operations" section for a discussion of adjusted book value and a reconciliation of GAAP book value per share to adjusted book value per share.

National

National is the largest U.S. public finance-only bond insurer in the financial guarantee industry as measured by total insured gross par outstanding of $125.0 billion as of September 30, 2016. National's primary business is insuring new issue and secondary market municipal bonds while providing ongoing surveillance of National's existing insured portfolio. National's ability to write new business and to compete with other financial guarantors is largely dependent on the financial strength ratings assigned to National by Kroll Bond Rating Agency ("Kroll"), Standard & Poor's Financial Services LLC ("S&P") and Moody's Investors Service, Inc. ("Moody's"). As of September 30, 2016, National had the following ratings: AA+ with a stable outlook by Kroll; AA- with a stable outlook by S&P; and A3 with a negative outlook by Moody's.

National pursues opportunities for new business in most municipal sectors. Based on our underwriting and pricing criteria, the majority of our new business is in the general obligation, tax-backed and revenue bond sectors. In addition to the new issue market, we are pursuing opportunities in the secondary market with respect to bonds issued previously that were not insured and that meet our underwriting criteria.

National seeks to generate shareholder value at appropriate risk-adjusted pricing; however, current market conditions and the competitive landscape may limit National's new business opportunities and our ability to price and underwrite risk with attractive returns.

For the issuer, the value of financial guarantee insurance is largely determined by the spread between the interest rate on insured versus uninsured debt. For the investor, the decision to purchase insured bonds is influenced by the overall yield environment. In the current environment of low interest rates, investors may choose to purchase uninsured bonds to increase their returns. An environment of higher interest rates and/or wider spreads would likely enhance the new business opportunities for National. We also believe the current stress in certain sectors of the municipal bond market reinforces the value of National's guarantee of timely payment of interest and principal. Refer to the "U.S. Public Finance Insurance" section for additional information on National's new business.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

Overall our U.S. public finance insured portfolio continues to perform satisfactorily against a backdrop of relatively stable domestic economic activity. While a stable or growing economy will generally benefit the tax revenues and fees charged for essential municipal services which secure the credits in our insured bond portfolio, some state, local governments and territory obligors we insure remain under financial and budgetary stress. This could lead to defaults by such entities on the payment of their obligations and insurance losses or claim payments on a greater number of our insured transactions. We continue to monitor and analyze these situations and other stressed credits closely, and the overall extent and duration of this stress is uncertain.

Exposure to Puerto Rico

As of September 30, 2016, National had $3.6 billion of gross insured par outstanding ($4.0 billion of gross insured par outstanding when including accreted interest on insured capital appreciation bonds ("CABs")) related to the Commonwealth of Puerto Rico and certain of its instrumentalities ("Puerto Rico"). Puerto Rico continues to experience significant fiscal stress and constrained liquidity. As of September 30, 2016, National owned, in aggregate, $141 million of bonds issued by the Puerto Rico Electric Power Authority ("PREPA") in connection with the Restructuring Support Agreement ("RSA") entered into on December 23, 2015. On July 1, 2016 Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in the aggregate of $173 million as a result. Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section for additional information on our Puerto Rico exposures.

MBIA Inc.

Our medium-term strategy is to reduce our leverage at the holding company to a level consistent with a mid-investment grade capital structure. In addition to scheduled debt maturities, from time to time, we reduce unsecured debt through calls or repurchases. We may also repurchase outstanding MBIA Inc. common shares when we deem this to be most beneficial to our shareholders. During the nine months ended September 30, 2016, we exhausted the capacity remaining under the October 28, 2015 repurchase program of $94 million by repurchasing 14.9 million common shares of MBIA Inc. at an average share price of $6.30. On February 23, 2016, the Company's Board of Directors authorized the repurchase by the Company and its subsidiaries of up to $100 million of its outstanding shares under a new share repurchase authorization. During the nine months ended September 30, 2016, we repurchased 1.7 million common shares of MBIA Inc. at an average share price of $7.02 under this new share repurchase authorization. Refer to the "Capital Resources" section for further information on our share and debt repurchases.

MBIA Corp.

MBIA Corp.'s primary objectives are to satisfy any claims of its policyholders, and to maximize future recoveries, if any, for its surplus note holders and, thereafter, its preferred stock holders. MBIA Corp. is executing this strategy by reducing and mitigating potential losses on its insurance exposures and pursuing various actions focused on maximizing the collection of recoveries.

MBIA Corp. has significant negative statutory earned surplus and therefore no current capacity to pay dividends. In addition, since July 15, 2012, the NYSDFS has not approved any payments on MBIA Insurance Corporation's outstanding surplus notes. MBIA Corp. has contributed to the Company's net operating loss carryforward ("NOL"), which is used in the calculation of our consolidated income taxes. When and if MBIA Corp. is profitable, it is not expected to make any tax payments under the MBIA group's tax sharing agreement and related escrow agreement (the "Tax Escrow Account"). Based on MBIA Corp.'s current projected earnings and our expectation that it will not write new business, we believe it is unlikely that MBIA Corp. will generate significant income in the near future. Refer to the "Capital Resources – MBIA Insurance Corporation" section for additional information on MBIA Insurance Corporation's surplus notes and statutory capital.

Zohar

At this time, MBIA Insurance Corporation is particularly focused on the policy it issued on the Zohar II Notes, which mature in January of 2017 and which, as of September 30, 2016, had $770 million of insured gross par outstanding. According to the sponsor and former collateral manager of Zohar II (the "Zohar Sponsor"), the assets of Zohar II include, among other things, loans made to, and equity interests in, companies that the Zohar Sponsor purports to control (the "Zohar II Collateral"). MBIA Insurance Corporation expects that on the Zohar Maturity Date, it will be required to pay a claim under its policy for the Zohar II Claim. MBIA Insurance Corporation does not expect to have sufficient liquidity to pay such claim on the Zohar II Notes unless it arranges third-party financing to enable it to pay the claim.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

MBIA Insurance Corporation is currently seeking to arrange third-party financing to increase its liquid assets to ensure that it has sufficient liquidity to pay the Zohar II Claim. MBIA Insurance Corporation's ability to arrange such financing, however, is constrained, and there is no assurance that it will be able to secure financing on acceptable terms. MBIA Insurance Corporation believes that any third-party financing will require approval by the NYSDFS. MBIA Insurance Corporation anticipates that the approval by the NYSDFS of the sale of MBIA UK, described herein, and of any third-party financing, if granted, would be based on (among other things) the NYSDFS concluding that MBIA Insurance Corporation will successfully execute its strategies to meet its obligations on the Zohar II Notes in a manner acceptable to the NYSDFS.

MBIA Insurance Corporation believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to satisfy its obligations under the Zohar II Notes on terms satisfactory to the NYSDFS, while maintaining sufficient assets to readily pay other policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law ("NYIL") and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS. The NYSDFS enjoys broad discretion in this regard, and any determination they may make would not be limited to consideration of the matters described above. No assurance is given as to what action, if any, the NYSDFS may take. MBIA Insurance Corporation has also commenced preparing contingency plans with respect to a potential rehabilitation proceeding in the event that it is unable to restructure the Zohar II Notes or arrange financing to pay the amounts due on the Zohar II Notes on the Zohar Maturity Date, in each case on terms acceptable to MBIA Insurance Corporation.

In the event that MBIA Insurance Corporation makes any payment in respect of the Zohar II Notes, it will be entitled to reimbursement of such payment plus interest. MBIA Insurance Corporation believes that the primary source of such reimbursement will come from the liquidation of the Zohar II Collateral.

In addition, MBIA Insurance Corporation insured the class A-1 and A-2 notes (the "Zohar I Insured Notes") issued by Zohar CDO 2003-1, Limited ("Zohar I"), a high yield corporate CDO, the assets of which also include, among other things, loans made to, and equity interests in, companies purportedly controlled by the Zohar Sponsor (all the assets of Zohar I, the "Zohar I Assets"). The Zohar I Insured Notes matured on November 20, 2015 and, after Zohar I failed to pay the amounts due on the Zohar I Insured Notes, MBIA Insurance Corporation paid a claim of $149 million on such Zohar I Insured Notes. As a result, MBIA Insurance Corporation is entitled to seek reimbursement of such claim plus interest and expenses (the "MBIA Zohar I Claim") from Zohar I and/or to exercise certain rights and remedies to seek recovery of such claim. In connection with the exercise of its rights and remedies, MBIA Insurance Corporation has directed the trustee for Zohar I to commence an auction (the "Auction") of all of the Zohar I Assets. All bids in the Auction are scheduled to be submitted by no later than November 29, 2016. MBIA Insurance Corporation has the right to submit a credit bid in the Auction for some or all of the Zohar I Assets up to the amount of the MBIA Zohar I Claim (the "MBIA Credit Bid"). In the event that any cash bids submitted in the Auction exceeds the MBIA Credit Bid, the Zohar I Assets will be sold for cash, and the cash will be applied pursuant to the Zohar I indenture priority of payments and the amounts remaining after payment of any senior expenses will be distributed to MBIA Insurance Corporation as reimbursement for the MBIA Zohar I Claim. In the event the MBIA Credit Bid is the highest bid submitted in the Auction, the Zohar I Assets will be transferred to MBIA Insurance Corporation in satisfaction of the MBIA Zohar I Claim.

While MBIA Insurance Corporation will seek to recover any payments it makes (plus interest and expenses) with respect to the Zohar I Notes and the Zohar II Notes, there can be no assurance that the value of the Zohar I Assets and/or Zohar II Assets will be sufficient to permit MBIA Insurance Corporation to recover all or substantially all of any such payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding with respect to MBIA Insurance Corporation would have any significant liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK or MBIA Mexico. For similar and additional reasons, we believe that MBIA Corp. does not provide significant economic value to MBIA Inc. and its shareholders. Refer to the "Liquidity – MBIA Corp. Liquidity" section for additional information on MBIA Corp.'s liquidity position. In the event of an MBIA Insurance Corporation rehabilitation or liquidation proceeding, the Company may be subject to, among other things, the following:

- Medium-term notes ("MTNs") issued by MBIA Global Funding, LLC ("GFL"), which are insured by MBIA Insurance Corporation, would accelerate. To the extent GFL failed to pay the accelerated amounts under the GFL MTNs, the MTN holders would have policy claims against MBIA Insurance Corporation for scheduled payments of interest and principal. MBIA Inc.'s payment obligations regarding the GFL MTNs are not subject to acceleration under a regulatory proceeding of MBIA Corp.;
- An MBIA Insurance Corporation rehabilitation or liquidation proceeding is expected to accelerate certain investment agreements issued by MBIA Inc., including, in some cases, with make-whole payments. The investment agreements are fully collateralized with high quality collateral, which is expected to be sufficient, upon liquidation, to repay the amounts due on the related investment agreements. In the event liquidation of the collateral is insufficient, MBIA Inc. will be required to make up any shortfall, which would reduce MBIA Inc.'s liquidity resources. To the extent MBIA Inc. fails to pay the accelerated amounts under these investment agreements or the collateral securing these investment agreements is insufficient to pay the accelerated amounts due, the holders of the investment agreements would have policy claims against MBIA Insurance Corporation;
- Credit default swap ("CDS") contract counterparties may seek to terminate CDS contracts insured by MBIA Insurance Corporation and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure), which, based on MBIA Corp.'s estimates, could aggregate up to $140 million as of September 30, 2016. The CDS counterparties could assert that the mark-to-market claims are higher than those estimated by MBIA Corp. Counterparties on other insured derivative contracts may also seek to terminate such contracts and make claims;
- In the event of a rehabilitation or liquidation proceeding, MBIA Insurance Corporation would continue to be included in the MBIA Inc. consolidated federal income tax return. As a result of such a proceeding, it is possible that MBIA Insurance Corporation may generate taxable income in the future, which would be applied against and reduce the Company's NOL;
- The rehabilitator or liquidator would replace the Board of Directors of MBIA Insurance Corporation and take control of the operations and assets of MBIA Insurance Corporation (subject to, with respect to MBIA UK, regulatory oversight and related controls provided by the PRA and FCA, which would stay in effect following such occurrence), which would result in MBIA Inc. losing control of MBIA Insurance Corporation and possible changes to MBIA Insurance Corporation's strategies and management; and
- An MBIA Insurance Corporation rehabilitation or liquidation proceeding may impose additional costs and/or potential liabilities on MBIA Inc. In addition, MBIA Insurance Corporation would be subject to significant additional expenses arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator.

Economic and Financial Market Trends

The U.S. economy continued to experience modest growth during the third quarter of 2016 driven by solid job growth, gains in consumer spending from lower energy costs and the ongoing recovery of the housing market. Partially offsetting these items were tepid wage growth and a slight increase in the unemployment rate. At the end of June of 2016, the U.K. held a referendum in which it voted to leave the European Union, referred to as ("Brexit"). This decision initially caused significant financial markets volatility and concerns over a potential recession in the U.K. and the rest of Europe. In response to these concerns, the Bank of England indicated it was willing to ease monetary policy and restart quantitative easing. Nevertheless, the potential impact of Brexit, coupled with concerns about the European banking sector and the upcoming political elections next year in France and Germany, has resulted in an unusually high level of uncertainty that could undermine European confidence and growth.

In addition to uncertainty about European economic growth prospects, the slowing growth in Japan, China and other emerging markets continues to weigh on the global economy. Any material adverse impact on these economies may have implications for continued U.S. growth. Despite all these uncertainties, there still remains the possibility of a rate increase by the Federal Open Market Committee before the end of 2016.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

EXECUTIVE OVERVIEW (continued)

Economic and financial market trends could impact MBIA's business outlook and its financial results. Many states and municipalities have experienced growing tax collections and appreciation in local level assessed valuations which drive property taxes. The consistent gradual improvement of economic indicators at the state and local levels that strengthen the credit quality of the issuers of our insured municipal bonds is expected to improve the performance of our insured U.S. public finance portfolio and could reduce the amount of National's incurred losses. A decrease in oil prices which benefits consumers could have a positive impact on certain sales taxes to the extent consumer spending increases as a result. However, some states and municipalities will experience a decrease in revenues where their economies are reliant on the oil and gas industries.

CRITICAL ACCOUNTING ESTIMATES

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which requires the use of estimates and assumptions. Management has discussed and reviewed the development, selection, and disclosure of critical accounting estimates with the Company's Audit Committee. Our most critical accounting estimates include loss and loss adjustment expense ("LAE") reserves, valuation of financial instruments, and income taxes, since these estimates require significant judgment. Any modifications in these estimates could materially impact our financial results.

For a discussion of the Company's critical accounting estimates, see "Critical Accounting Estimates" in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. In addition, refer to "Note 5: Loss and Loss Adjustment Expense Reserves", "Note 6: Fair Value of Financial Instruments" and "Note 9: Income Taxes" in the Notes to Consolidated Financial Statements for a current description of estimates used in our insurance loss reserving process, information about our financial assets and liabilities that are accounted for at fair value, including valuation techniques and significant inputs and estimates involving income taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to "Note 3: Recent Accounting Pronouncements" in the Notes to Consolidated Financial Statements for a discussion of accounting guidance recently adopted by the Company.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS

Summary of Consolidated Results

The following table presents a summary of our consolidated financial results for the three and nine months ended September 30, 2016 and 2015:

In millions except for share and per share amounts	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Total revenues	$ 203	$ 92	$ 353	$ 556
Total expenses	148	147	454	406
Income (loss) before income taxes	55	(55)	(101)	150
Provision (benefit) for income taxes	24	(20)	(28)	52
Net income (loss)	$ 31	$ (35)	$ (73)	$ 98
Net income (loss) per common share:				
Basic	$ 0.23	$ (0.23)	$ (0.55)	$ 0.56
Diluted	$ 0.23	$ (0.23)	$ (0.55)	$ 0.55
Weighted average number of common shares outstanding:				
Basic	131,633,411	155,239,723	133,368,752	169,610,370
Diluted	132,042,067	155,239,723	133,368,752	170,566,386

Three Months Ended September 30, 2016 vs. Three Months Ended September 30, 2015

The increase in consolidated total revenues was primarily due to favorable changes in the value of our interest rate swaps, net gains on the sales of investments, an increase in fees and reimbursements and net gains on insured derivatives, partially offset by net losses on foreign exchange. Net gains on our interest rate swaps were primarily due to the effect of increases in interest rates during the period. Net gains from the sales of investments in 2016 were primarily due to sales of securities as a result of favorable market conditions. The increase in fees and reimbursements was due to an increase in termination, waiver and consent fees related to the ongoing management of our international and structured finance insurance business. Net gains on insured derivatives in 2016 were due to the reversal of unrealized losses from the termination of an insured derivative and favorable changes in spreads/prices on the underlying collateral. Net losses in foreign exchange in 2016 were primarily associated with our Euro denominated liabilities as a result of the weakening of the U.S. dollar.

Consolidated total expenses for the three months ended September 30, 2016 and 2015 included $50 million and $39 million, respectively, of net insurance loss and LAE. This increase was principally due to increases in reserves on certain Puerto Rico exposures and insured second-lien residential mortgage-backed securities ("RMBS") transactions, partially offset by decreases in expected payments on CDOs.

Nine Months Ended September 30, 2016 vs. Nine Months Ended September 30, 2015

The decrease in consolidated total revenues was due to net losses on insured derivatives compared with gains in 2015, gains from derivative terminations in 2015, unfavorable changes of foreign exchange and lower net premiums earned due to higher refunding activity in 2015, partially offset by net gains on the sales of investments in 2016 and an increase in fees and reimbursements. Net losses on insured derivatives in 2016 were primarily the result of claim payments on commercial mortgage-backed securities ("CMBS") transactions. Net gains on insured derivatives in 2015 were principally the result of changes in transaction-specific factors, such as credit ratings, partially offset by claim payments. Net losses in foreign exchange in 2016 were primarily associated with our Euro denominated liabilities as a result of the weakening of the U.S. dollar. Net gains from the sales of investments in 2016 were primarily due to generating liquidity for expected payments on certain Puerto Rico exposures and from favorable market conditions. The increase in fees and reimbursements was due to an increase in termination, waiver and consent fees related to the ongoing management of our international and structured finance insurance business.

Consolidated total expenses for the nine months ended September 30, 2016 and 2015 included $149 million and $79 million, respectively, of net insurance loss and LAE. This increase was principally due to increases in payments on certain Puerto Rico exposures and insured first-lien RMBS transactions, partially offset by decreases in expected payments on CDOs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Operating Income (Loss)

In addition to our results prepared in accordance with GAAP, we also analyze the operating performance of the Company using operating income (loss) and operating income (loss) per diluted common share, both non-GAAP measures. Since operating income (loss) is used by management to assess performance and make business decisions, we consider operating income (loss) and operating income (loss) per diluted common share fundamental measures of periodic financial performance which are useful in understanding our results. Operating income (loss) and operating income (loss) per diluted common share are not substitutes for net income (loss) and net income (loss) per diluted common share determined in accordance with GAAP, and our definitions of operating income (loss) and operating income (loss) per diluted common share may differ from those used by other companies.

Operating income (loss) and operating income (loss) per diluted common share include the combined after-tax results of our U.S. public finance insurance and corporate segments and remove the after-tax results of our international and structured finance insurance segment, which is not part of our ongoing business strategy as we do not expect to write new business in this segment for the foreseeable future. In addition, we exited our advisory services segment through the sale of Cutwater effective January 1, 2015.

In addition to removing our international and structured finance insurance segment, operating income (loss) is adjusted for the following:

- Elimination of the impact of mark-to-market gains (losses) on financial instruments that primarily include interest rate swaps and hybrid financial instruments. Also eliminated are the mark-to market gains (losses) on warrants issued by the Company. All of these amounts fluctuate based on market interest rates, credit spreads, MBIA Inc.'s common stock price and other market factors.
- Elimination of foreign exchange gains (losses) on the remeasurement of certain assets and liabilities and transactions in non-functional currencies. Given the possibility of volatility in foreign exchange markets, we exclude the impact of foreign exchange gains (losses) to provide a measurement of comparability of operating income (loss).
- Elimination of gains (losses) on the sale of investments, net investment losses related to other-than-temporary impairments ("OTTI") and net gains (losses) on extinguishment of debt since the timing of these transactions are subject to management's assessment of market opportunities and capital liquidity positions.
- Elimination of the results from the sale of Cutwater.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents our combined operating income (loss) and operating income (loss) per diluted common share and provides reconciliations of GAAP net income (loss) to operating income (loss) and GAAP net income (loss) per diluted common share to operating income (loss) per diluted common share for the three and nine months ended September 30, 2016 and 2015:

In millions except share and per share amounts	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015	
Net income (loss) and net income (loss) per diluted common share	$ 31	$ 0.23	$ (35)	$ (0.23)
Less: operating income adjustments:				
Income (loss) before income taxes of our international and structured finance insurance segment and eliminations	12	0.09	(58)	(0.37)
Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:				
Mark-to-market gains (losses) on financial instruments[1]	10	0.08	(32)	(0.21)
Foreign exchange gains (losses)[1]	(6)	(0.05)	1	0.01
Net gains (losses) on sales of investments[1]	32	0.24	-	-
Net investment losses related to OTTI	-	-	(3)	(0.02)
Other net realized gains (losses)[2]	(2)	(0.02)	(1)	(0.01)
Operating income adjustment to the (provision) benefit for income tax[3]	(20)	(0.15)	34	0.22
Operating income (loss) and operating income (loss) per diluted common share	$ 5	$ 0.04	$ 24	$ 0.15
Weighted average diluted shares used in calculation		132,042,067		156,063,511[4]

(1) - Gross amounts are reported within "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

(2) - Relates to the results from the sale of Cutwater.

(3) - Reported within "Provision (benefit) for income taxes" on the Company's consolidated statements of operations.

(4) - Includes GAAP diluted weighted average number of common shares of 155,239,723 and the dilutive effect of common stock equivalents of 823,788 shares.

In millions except share and per share amounts	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income (loss) and net income (loss) per diluted common share	$ (73)	$ (0.55)	$ 98	$ 0.55
Less: operating income adjustments:				
Income before income taxes of our international and structured finance insurance segment and eliminations	(136)	(1.02)	(58)	(0.34)
Adjustments to income before income taxes of our U.S. public finance insurance and corporate segments:				
Mark-to-market gains (losses) on financial instruments[1]	(50)	(0.38)	23	0.13
Foreign exchange gains (losses)[1]	(24)	(0.18)	44	0.25
Net gains (losses) on sales of investments[1]	51	0.38	7	0.04
Net investment losses related to OTTI	(1)	(0.01)	(10)	(0.06)
Net gains (losses) on extinguishment of debt	5	0.04	(1)	(0.01)
Other net realized gains (losses)[2]	(4)	(0.03)	22	0.13
Operating income adjustment to the (provision) benefit for income tax[3]	50	0.37	(6)	(0.04)
Operating income (loss) and operating income (loss) per diluted common share	$ 36	$ 0.28	$ 77	$ 0.45
Weighted average diluted shares used in calculation		133,850,864[4]		170,566,386

(1) - Gross amounts are reported within "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

(2) - Relates to the results from the sale of Cutwater.

(3) - Reported within "Provision (benefit) for income taxes" on the Company's consolidated statements of operations.

(4) - Includes GAAP diluted weighted average number of common shares of 133,368,752 and the dilutive effect of common stock equivalents of 482,112 shares.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Adjusted Book Value

In addition to book value per share, we also analyze adjusted book value ("ABV") per share, a non-GAAP measure. We consider ABV a measure of fundamental value of the Company and the change in ABV an important measure of financial performance. ABV adjusts GAAP book value to remove the after-tax results of our international and structured finance insurance segment. In addition, ABV adjusts for certain items which the Company believes will reverse from GAAP book value through GAAP earnings and other comprehensive income, as well as to add in the impact of certain items which the Company believes will be realized in GAAP book value in future periods. The Company has limited such adjustments to those items that it deems to be important to fundamental value and performance and for which the likelihood and amount can be reasonably estimated. We have presented ABV to allow investors and analysts to evaluate the Company using the same measure that MBIA's management regularly uses to measure financial performance and value. ABV is not a substitute for and should not be viewed in isolation of GAAP book value, and our definition of ABV may differ from that used by other companies.

As of September 30, 2016, ABV per share was $32.39, an increase from $29.69 as of December 31, 2015. The increase in ABV per share was primarily driven by a decrease in common shares outstanding from the share repurchases made by the Company during the nine months ended September 30, 2016. The following table provides a reconciliation of consolidated book value per share to consolidated ABV per share:

In millions except share and per share amounts	As of September 30, 2016	As of December 31, 2015
Total shareholders' equity of MBIA Inc.	$ 3,658	$ 3,729
Common shares outstanding	135,723,407	151,530,377
Book value per share	$ 26.95	$ 24.61
Reverse book value of international and structured finance insurance segment(1)	3.14	1.61
Reverse net unrealized (gains) losses included in other comprehensive income (loss)	(1.04)	0.34
Add net unearned premium revenue(2)	4.62	5.02
Add tax impact effect on unrealized (gains) losses and unearned premium revenue	(1.28)	(1.89)
Total adjustments per share	5.44	5.08
Adjusted book value per share	$ 32.39	$ 29.69

(1) - The book value for the international and structured finance insurance segment does not provide significant economic or shareholder value to MBIA Inc. Amounts are net of any deferred taxes available to MBIA Inc.

(2) - Consists of financial guarantee premiums, net of deferred acquisition costs. The discount rate on financial guarantee installment premiums was the risk-free rate as defined by the accounting principles for financial guarantee insurance contracts.

U.S. Public Finance Insurance

Our U.S. public finance insurance business is primarily conducted through National. The financial guarantees issued by National provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, insured obligations when due or, in the event National has exercised, at its discretion, the right to accelerate the payment under its policies upon the acceleration of the underlying insured obligations due to default or otherwise. National's guarantees insure municipal bonds, including tax-exempt and taxable indebtedness of U.S. political subdivisions, as well as utility districts, airports, healthcare institutions, higher educational facilities, student loan issuers, housing authorities and other similar agencies and obligations issued by private entities that finance projects that serve a substantial public purpose. Municipal bonds and privately issued bonds used for the financing of public purpose projects are generally supported by taxes, assessments, user fees or tariffs related to the use of these projects, lease payments or other similar types of revenue streams.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents our U.S. public finance insurance segment results for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Net premiums earned	$ 60	$ 68	-12%	$ 174	$ 226	-23%
Net investment income	29	29	- %	90	86	5%
Fees and reimbursements	1	1	- %	2	2	- %
Net gains (losses) on financial instruments at fair value and foreign exchange	31	1	n/m	65	4	n/m
Net investment losses related to other-than-temporary impairments	-	(3)	-100%	-	(9)	-100%
Other net realized gains (losses)	-	-	-%	-	(4)	-100%
Total revenues	121	96	26%	331	305	9%
Losses and loss adjustment	28	(7)	n/m	46	(5)	n/m
Amortization of deferred acquisition costs	12	15	-20%	36	49	-27%
Operating	15	17	-12%	45	47	-4%
Total expenses	55	25	120%	127	91	40%
Income (loss) before income taxes	66	71	-7%	204	214	-5%
Provision (benefit) for income taxes	22	25	-12%	69	74	-7%
Net income (loss)	$ 44	$ 46	-4%	$ 135	$ 140	-4%

n/m - Percent change not meaningful.

National supports the credit enhancement needs of municipal debt issuers across the U.S. National maintains underwriting criteria for most municipal risk types and pursues opportunities for new business across the spectrum of municipal sectors. During the nine months ended September 30, 2016, National insured $706 million of gross par exposure in the primary and secondary markets. The majority of its new business is in the general obligation, tax-backed and revenue bond sectors. Low interest rates and competitive pricing levels continue to limit new business opportunities.

NET PREMIUMS EARNED Net premiums earned on financial guarantees represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. The decrease in net premiums earned for the three months ended September 30, 2016 compared with the same period of 2015 resulted from decreases in refunded premiums earned of $4 million and scheduled premiums earned of $4 million. The decrease in net premiums earned for the nine months ended September 30, 2016 compared with the same period of 2015 resulted from decreases in refunded premiums earned of $33 million and scheduled premiums earned of $19 million. Scheduled premium earnings declined due to the refunding and maturity of insured issues in prior periods. Refunding activity over the past several years has accelerated premium earnings in prior periods and reduced the amount of scheduled premiums that would have been earned in the current period.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the three months ended September 30, 2016 compared with the same period of 2015 was principally due to increases in net realized gains from the sales of securities as a result of favorable market conditions. The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the nine months ended September 30, 2016 compared with the same period of 2015 was principally due to increases in net realized gains from the sales of securities in order to generate liquidity for expected payments on certain Puerto Rico exposures and from favorable market conditions.

NET INVESTMENT LOSSES RELATED TO OTHER-THAN-TEMPORARY IMPAIRMENTS Net investment losses related to OTTI for the three and nine months ended September 30, 2015 were primarily related to one impaired security for which a loss was recognized as the difference between its amortized cost and the net present value of its projected cash flows. This OTTI resulted from liquidity concerns and other adverse financial conditions of the issuer. Refer to the “Liquidity” section included herein for additional information about impaired investments.

OTHER NET REALIZED GAINS (LOSSES) Other net realized losses for the nine months ended September 30, 2015 related to an impairment charge on our Armonk, New York facility recorded during the three months ended March 31, 2015 to adjust the carrying amount to its sales price less costs to sell.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

LOSS AND LOSS ADJUSTMENT EXPENSES National's portfolio surveillance group is responsible for monitoring our U.S. public finance segment's insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and our assessed performance of the insured issue.

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves.

The following table presents information about our U.S. public finance insurance loss and LAE expenses for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Loss and LAE related to actual and expected payments	$ 200	$ (5)	n/m	$ 229	$ (6)	n/m
Recoveries of actual and expected payments	(172)	(2)	n/m	(182)	1	n/m
Gross losses incurred	28	(7)	n/m	47	(5)	n/m
Reinsurance	-	-	- %	(1)	-	n/m
Losses and loss adjustment expenses	$ 28	$ (7)	n/m	$ 46	$ (5)	n/m

n/m - Percent change not meaningful.

For the three and nine months ended September 30, 2016, losses and LAE primarily related to increases in actual and expected payments on certain Puerto Rico exposures, partially offset by increases in recoveries of expected payments on certain Puerto Rico exposures. The benefit in losses and LAE for the three and nine months ended September 30, 2015 primarily related to decreases in reserves for certain municipal utilities driven by decreases in interest rates used to discount reserves and recoveries.

The following table presents information about our U.S. public finance insurance loss and LAE reserves and recoverables as of September 30, 2016 and December 31, 2015:

In millions	September 30, 2016	December 31, 2015	Percent Change
Assets:			
Insurance loss recoverable	$ 174	$ 4	n/m
Reinsurance recoverable on paid and unpaid losses (1)	1	1	- %
Liabilities:			
Gross loss and LAE reserves	100	66	52%
Expected recoveries on unpaid losses	(28)	(21)	33%
Loss and LAE reserves	$ 72	$ 45	60%
Insurance loss recoverable - ceded (2)	$ 12	$ -	n/m

(1) - Reported within "Other assets" on our consolidated balance sheets.

(2) - Reported within "Other liabilities" on our consolidated balance sheets.

n/m - Percent change not meaningful.

Loss and LAE Reserves as of September 30, 2016 increased compared with December 31, 2015 primarily as a result of increases in expected payments on certain Puerto Rico exposures.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Included in our U.S. public finance loss and LAE reserves are both reserves for insured obligations for estimated future claims payments, which includes insured credits where a payment default has occurred and National has already paid a claim and insured credits where a payment default has not yet occurred. As of September 30, 2016 and December 31, 2015, loss and LAE reserves comprised the following:

$ in millions	Number of Issues (1)		Loss and LAE Reserve		Par Outstanding	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Gross of reinsurance:						
Issues with defaults	5	3	$ 56	$ 13	$ 1,520	$ 52
Issues without defaults	6	5	16	32	1,489	1,430
Total gross of reinsurance	11	8	$ 72	$ 45	$ 3,009	$ 1,482

(1) - An "issue" represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

POLICY ACQUISITION COSTS AND OPERATING EXPENSES U.S. public finance insurance segment expenses for the three and nine months ended September 30, 2016 and 2015 are presented in the following table:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Gross expenses	$ 15	$ 17	-12%	$ 46	$ 47	-2%
Amortization of deferred acquisition costs	$ 12	$ 15	-20%	$ 36	$ 49	-27%
Operating	15	17	-12%	45	47	-4%
Total insurance operating expenses	$ 27	$ 32	-16%	$ 81	$ 96	-16%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Amortization of deferred acquisition costs decreased for the three and nine months ended September 30, 2016 compared with the same periods of 2015 due to higher refunding activity in 2015. When an insured obligation refunds, we accelerate any remaining deferred acquisition costs associated with the policy covering the refunded insured obligation. We did not defer a material amount of policy acquisition costs during the nine months ended September 30, 2016 or 2015.

OPERATING INCOME (LOSS) In addition to the above results, we also analyze the operating performance of our U.S. public finance insurance segment using operating income (loss), a non-GAAP measure. We believe operating income (loss), as used by management, is useful for an understanding of the results of operations of the Company. Operating income (loss) is not a substitute for net income (loss) determined in accordance with GAAP, and our definition of operating income (loss) may differ from that used by other companies.

The following table presents a reconciliation of GAAP net income (loss) to operating income (loss) for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income (loss)	$ 44	$ 46	$ 135	$ 140
Less: operating income adjustments:				
Net gains (losses) on sales of investments(1)	31	-	61	3
Net investment losses related to OTTI	-	(3)	-	(9)
Operating income adjustment to the (provision) benefit for income tax(2)	(11)	1	(21)	2
Operating income (loss)	$ 24	$ 48	$ 95	$ 144

(1) - Gross amounts are reported within "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

(2) - Reported within "Provision (benefit) for income taxes" on the Company's consolidated statements of operations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

INSURED PORTFOLIO EXPOSURE Financial guarantee insurance companies use a variety of approaches to assess the underlying credit risk profile of their insured portfolios. National uses both an internally developed credit rating system as well as third-party rating sources in the analysis of credit quality measures of its insured portfolio. In evaluating credit risk, we obtain, when available, the underlying rating of the insured obligation before the benefit of its insurance policy from nationally recognized rating agencies, Moody's and S&P. Other companies within the financial guarantee industry may report credit quality information based upon internal ratings that would not be comparable to our presentation. We maintain internal ratings on our entire portfolio, and our ratings may be higher or lower than the ratings assigned by Moody's or S&P.

The following table presents the credit quality distribution of National's U.S. public finance outstanding gross par insured as of September 30, 2016 and December 31, 2015. CABs are reported at the par amount at the time of issuance of the insurance policy. All ratings are as of the period presented and represent S&P ratings. If transactions are not rated by S&P, a Moody's equivalent rating is used. If transactions are not rated by either S&P or Moody's, an internal equivalent rating is used.

In millions	Gross Par Outstanding			
	September 30, 2016		December 31, 2015	
Rating	Amount	%	Amount	%
AAA	$ 5,881	4.7%	$ 6,721	4.2%
AA	58,338	46.7%	77,081	47.9%
A	41,839	33.5%	56,890	35.3%
BBB	13,022	10.4%	13,947	8.6%
Below investment grade	5,913	4.7%	6,378	4.0%
Total	$ 124,993	100.0%	$ 161,017	100.0%

U.S. Public Finance Insurance Puerto Rico Exposures

The following is a summary of exposures within the insured portfolio of our U.S. public finance insurance segment related to Puerto Rico as of September 30, 2016.

In millions	Gross Par Outstanding	Gross Par Outstanding Plus CAB Accreted Interest	Debt Service Outstanding	National Internal Rating
Puerto Rico Electric Power Authority (PREPA)(1)	$ 1,250	$ 1,270	$ 1,820	d
Puerto Rico Commonwealth GO(1)	665	690	919	d
Puerto Rico Public Buildings Authority(2)	190	190	284	d
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)(1)	586	586	1,068	d
Puerto Rico Highway and Transportation Authority - Subordinated Transportation Revenue	33	33	45	d
Puerto Rico Sales Tax Financing Corporation (COFINA) (1)	684	1,077	4,170	bbb3
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)(1)	87	89	123	d
University of Puerto Rico System Revenue	86	86	127	d
Inter American University of Puerto Rico Inc.	26	26	35	a3
Total	$ 3,607	$ 4,047	$ 8,591	

(1) - Includes CABs that reflect the gross par amount at the time of issuance of the insurance policy.

(2) - Additionally secured by the guarantee of the Commonwealth of Puerto Rico.

For many years Puerto Rico's economy has suffered from stagnation, net migration of people out of Puerto Rico and weak government fiscal management that has led to recurring budget deficits and increased borrowing to finance such deficits. As a result of mounting debt, deteriorating credit ratings and lack of market confidence, Puerto Rico does not have access to the capital markets at reasonable rates.

Developments concerning Puerto Rico's fiscal condition have occurred, and are occurring, with more frequency. Set forth below are the developments that are significant to National and its exposures to Puerto Rico.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

On June 30, 2016, the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"), was signed into law by the President of the United States. PROMESA provides both for the creation of an oversight board with powers relating to the development and implementation of a fiscal plan for Puerto Rico as well as a court-supervised process (independent of the Bankruptcy Code) that allows Puerto Rico to restructure its debt if voluntary agreement cannot be reached with creditors through a collective action process.

On August 31, 2016, the President of the United States announced the appointment of the seven members who will comprise the Oversight Board. The Oversight Board has adopted its bylaws and established a sub-committee to search for and hire an Executive Director and General Counsel. Among other matters, the Oversight Board and its advisors will evaluate Puerto Rico's fiscal plan and potential restructuring options, and consider how to address such proposals under the guidelines provided by PROMESA.

Consistent with Section 409 of PROMESA, an Economic Task Force was established in July of 2016. Under the law, the Task Force is charged with identifying impediments to Puerto Rico's growth and recommending changes to promote long-term economic growth and stability, spur new job creation, reduce child poverty, and attract investment in the territory. The Task Force's report is due by December 31, 2016.

On April 6, 2016, Governor of Puerto Rico signed into law The Puerto Rico Emergency Moratorium and Financial Rehabilitation Act (Law 21-2016 or the "Moratorium Act"). The legislation authorized the Governor of Puerto Rico to order a moratorium on the payment of certain obligations of Puerto Rico through January 1, 2017 and, if extended, March 31, 2017. On June 30, 2016, the Governor of Puerto Rico, relying on that authorization, signed certain executive orders suspending payment of general obligation debt ("GO") as well as declaring "states of emergency" for Puerto Rico including the Retirement System of Public Employees, Puerto Rico Industrial Corporation and the University of Puerto Rico. As such, on July 1, 2016, when payments were due and payable, Puerto Rico failed to pay debt service of approximately $779 million on GO bonds as well as a portion of $178 million of Puerto Rico guaranteed debt of the Puerto Rico Public Buildings Authority ("PBA"). National paid claims of approximately $169 million on the GO bonds.

Also under color of the authority provided by the Moratorium Act, on May 17, 2016, the Governor of Puerto Rico signed an executive order to suspend through June 30, 2016 PRHTA's obligations to transfer to the fiscal agent certain toll revenues and any other revenues allocated to or received by PRHTA and authorize PRHTA's use of such revenues for the ongoing provision of services essential to protect the health, safety, and welfare of the residents of Puerto Rico. On June 30, 2016, the Governor of Puerto Rico signed two executive orders that, collectively, extended the May 17, 2016 suspension of revenue transfers to the fiscal agent and suspended the payment of PRHTA's debt obligations under the 1968 and 1998 Resolutions coming due during the term of the Moratorium Act (but not the transfer of revenues pledged for the payment of outstanding loans owed to Government Development Bond ("GDB"), which were modified solely to the extent necessary to provide PRHTA with the revenues it requires to fund operating expenses or essential services). In addition, one of the executive orders issued on June 30, 2016 also suspended the University of Puerto Rico's ("UPR") obligation to (a) transfer certain pledged revenues to the trustee for revenue bonds issued by UPR, and (b) make payments pursuant to the Lease Agreement between UPR and Desarrollos Universitarios Inc., which payments support the debt service payments on certain educational facilities revenue bonds issued by the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority ("AFICA"). The UPR revenue bonds and AFICA educational facilities revenue bonds insured by National were paid from pledged revenues on June 1, 2016 and July 1, 2016, respectively. As a result of suspending UPR's obligation to transfer funds to the trustee for debt service, National downgraded the rating of UPR to "d" during the third quarter of 2016. Holders of debt insured by National and issued by UPR, Puerto Rico Industrial Development Company, PBA, and most of PRHTA, were paid through reserves or funded by monthly deposits held by the respective trustee or fiscal agent. National paid an additional $4 million of claims on PRHTA debt when the GDB refused to release debt service reserve funds held in trust by the GDB.

In June of 2016, National filed a complaint in federal court in Puerto Rico challenging the Moratorium Act as unconstitutional under the United States Constitution as well as a motion for partial summary judgment on its claim that the Moratorium Act is preempted by the federal Bankruptcy Code. The motion for summary judgment is now fully briefed and a decision is pending. The Puerto Rico defendants filed their answer to the complaint in July of 2016 and in August of 2016, the Court granted the Puerto Rico defendant's motion to stay the case pursuant to PROMESA's stay provision. In September of 2016, the Court held an evidentiary hearing on whether cause existed to lift the stay. In October of 2016, the Oversight Board filed a motion with the Court seeking to intervene into the case and opposing National's motion to lift the PROMESA stay, while expressing no view on the merits of National's claims. On October 28, 2016, National responded to this motion. Refer to "Note 13: Commitments and Contingencies" in the Notes to Consolidated Financial Statements for additional information about this matter.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

COFINA

In October of 2016, a group of GO bondholders which had, in July of 2016, previously initiated litigation against Puerto Rico, filed a motion seeking leave to amend its complaint to add a challenge to Puerto Rico's purported diversion of funds to the Puerto Rico Sales Tax Financing Corporation ("COFINA"). The plaintiff group contends that the funds being used to pay bonds issued by COFINA constitute "available resources" within the meaning of article VI, section 8 of the Puerto Rico Constitution, and therefore must be devoted to payment of principal and interest on Puerto Rico's public debt before they may be used for other purposes. By failing to redirect such funds to pay GO bondholders, the plaintiff group claims that Puerto Rico is improperly diverting funds to COFINA bondholders. National has exposure to COFINA debt of over $1.0 billion, including CAB accreted interest. As legal opinions from Puerto Rico justice secretaries and bond counsel have confirmed, National believes that the legal structure of COFINA is secure and that it maintains a valid statutory lien on the sales tax revenue stream backing the bonds. Although the Court ruled that the automatic stay provision of PROMESA did not apply to some of the plaintiffs' claims, other claims in the plaintiffs' second amended complaint may be subject to the litigation stay. Notwithstanding the foregoing, until all legal challenges are resolved, there can be no assurance that the COFINA structure will be upheld. Thus, risk exists that the sales tax revenue backing the bonds could be clawed back by Puerto Rico.

PREPA

National's largest exposure to Puerto Rico, by gross par outstanding, is to PREPA. On December 23, 2015, National, Assured Guaranty, and the ad hoc group of bondholders (representing approximately $3.0 billion, or 37.0% of the power revenue bonds, (collectively the "Supporting Creditors")) entered into an RSA with the support of approximately 65% of $8.1 billion of outstanding PREPA bonds, including approximately $1.4 billion of PREPA bonds insured by National. The RSA calls for a newly formed bankruptcy remote special purpose entity ("SPE") to issue securitized bonds including bonds that are equal in principal amount to the outstanding principal of the PREPA bonds insured by National and by other monoline insurers ("Mirror Bonds"). The Mirror Bonds will bear interest at the same rate and will amortize at the same schedule as the existing insured legacy bonds which they back. The payments on the Mirror Bonds will be used to make payment on the insured legacy bonds.

Additionally, and subject to certain market rate and rating agency conditions, the SPE may issue additional securitization bonds to refinance outstanding currently callable and non-callable insured legacy bonds (approximately $320 million of National exposure). National will issue a Surety Bond in an amount up to $344 million as partial funding of a Debt Service Reserve Fund ("DSRF") for the securitization bonds which would be used after a $65 million cash funded DSRF. The Surety Bond will be amortized using cash from the SPE over seven years starting in the seventh year, but can amortize after the second year over nine years if PREPA does not refinance the currently callable and non-callable debt referenced above.

Finally, as a condition to the RSA, the Supporting Creditors agreed to purchase certain bonds of PREPA in the aggregate amount of $111 million (the "2016A and 2016B bonds") of which National's portion is approximately $35 million. The Supporting Creditors closed on the 2016A and 2016B bonds in May and June of 2016, respectively. The bonds will earn 10% interest, will mature on July 1, 2019 and will be supported by Mirror Bonds when the SPE issues its securitization bonds.

The RSA remains in effect and milestones have been reached. In February of 2016, the PREPA Revitalization Act (the "Revitalization Act") was approved by Puerto Rico's House of Representatives and Senate and signed into law by the Governor of Puerto Rico. Enactment of the Revitalization Act was required by the RSA and is an integral component of the PREPA restructuring. The constitutionality of the Revitalization Act and securitized bonds are currently being challenged by litigation in the Superior Court in Puerto Rico. Validation of the Revitalization Act is required by the RSA and there is no concrete timetable for resolution of these lawsuits.

There are two separate but parallel rate-cases currently pending in front of the Puerto Rico Energy Commission ("PREC"). In June of 2016, PREC approved a volumetric transition charge for both residential and non-residential customers. The transition charge will be used to pay the debt issued by the SPE. Also in June of 2016, the PREC issued an order approving a requested provisional rate of approximately $0.013/kWh requested by PREPA. A decision on the permanent rate is expected by early next year.

On June 30, 2016, the Supporting Creditors and PREPA agreed to extend the RSA deadline until December 15, 2016. As part of the agreement, PREPA made its July 1, 2016 debt service payment of approximately $417 million. In order to provide liquidity to PREPA, the Supporting Creditors purchased approximately $264 million of bonds (Series 2016C, 2016D and 2016E) and National purchased $105 million of 2016C bonds. The 2016C bonds will earn 5.4% interest, will amortize over the next four years, and will be supported by Mirror Bonds when the SPE issues its securitization bonds.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

PRHTA

As set forth above, National has significant exposure to PRHTA. In December of 2015, the Governor of Puerto Rico signed an executive order to redirect certain revenues previously allocated to select public corporation and certain other government agencies ("clawback"), including PRHTA. On January 1, 2016, Puerto Rico made all of its debt service payments due except for bond payments totaling $37 million relating to the Puerto Rico Infrastructure Authority ("PRIFA") and Public Finance Corporation. Following the missed payment by PRIFA, certain bond insurers (not including National) filed a lawsuit against Puerto Rico claiming that the clawback of the revenues violated the U.S. constitution and the laws of Puerto Rico. Puerto Rico has made a motion to dismiss that case. The outcome of that legal challenge is uncertain, and further, while adoption of the clawback measure was intended to provide short-term relief, Puerto Rico's lack of a comprehensive plan or clear evidence of steps to conserve resources necessary to meet its near term debt service obligations raises questions as to whether the intercept will continue to be a short-term measure.

An earlier legislative enactment, designed to provide a means to restructure the debt of certain of Puerto Rico's public corporations (the Public Corporations Debt Enforcement and Recovery Act, or the "Recovery Act"), has been deemed unconstitutional by the U.S. District Court in Puerto Rico, and the First Circuit Court of Appeals, and ultimately by the Supreme Court of the United States, which, on June 13, 2016 issued a decision affirming the lower court ruling that the Recovery Act was preempted by the United States Bankruptcy Code. National has cited to this decision in its motion for summary judgment seeking an early ruling on its aforementioned challenge to the Moratorium Act.

Other

Other than Inter American University of Puerto Rico Inc., S&P, Fitch Ratings and/or Moody's have downgraded the ratings of all Puerto Rico issuers to below investment grade with a negative outlook due to narrowing liquidity, sluggish economic growth and persistent structural deficits. Additionally, subsequent to the Governor of Puerto Rico declaring a state of emergency and suspending debt service payments, S&P revised its rating for Puerto Rico, its GO, PREPA and PRHTA's subordinated transportation revenue bonds, series 1998, state infrastructure bank, to "D" (default).

Scheduled gross debt service due on our Puerto Rico insured exposures for the three months ending December 31, 2016 and each of the subsequent four years ending December 31 and thereafter are presented in the following table:

In millions	Three Months Ending December 31, 2016	2017	2018	2019	2020	Thereafter	Total
Puerto Rico Electric Power Authority (PREPA)	$ -	$ 184	$ 120	$ 177	$ 115	$ 1,224	$1,820
Puerto Rico Commonwealth GO	-	66	96	154	223	380	919
Puerto Rico Public Building Authority	-	15	21	27	11	210	284
Puerto Rico Highway and Transportation Authority Transportation Revenue (PRHTA)	-	31	35	29	30	943	1,068
Puerto Rico Highway and Transportation Authority - Subordinated Transportation Revenue	-	5	5	3	3	29	45
Puerto Rico Sales Tax Financing Corporation (COFINA)	-	-	-	-	-	4,170	4,170
Puerto Rico Highway and Transportation Authority Highway Revenue (PRHTA)	-	22	6	16	17	62	123
University of Puerto Rico System Revenue	1	8	7	7	7	97	127
Inter American University of Puerto Rico Inc.	2	3	3	3	3	21	35
Total	$ 3	$ 334	$ 293	$ 416	$ 409	$ 7,136	$8,591

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Corporate

Our corporate segment consists of general corporate activities, including providing general support services to MBIA Inc.'s subsidiaries and asset and capital management. General support services are provided by our service company, MBIA Services, including, among others, management, legal, accounting, treasury, information technology, and insurance portfolio surveillance, on a fee-for-service basis. Capital management includes activities related to servicing obligations issued by MBIA Inc. and its subsidiaries, GFL and MBIA Investment Management Corp. ("IMC"). MBIA Inc. issued debt to finance the operations of the MBIA group. GFL raised funds through the issuance of MTNs with varying maturities, which were in turn guaranteed by MBIA Corp. GFL lent the proceeds of these MTN issuances to MBIA Inc. IMC, along with MBIA Inc., provided customized investment agreements, guaranteed by MBIA Corp., for bond proceeds and other public funds for such purposes as construction, loan origination, escrow and debt service or other reserve fund requirements. The Company has ceased issuing these MTNs and investment agreements and the outstanding liability balances and corresponding asset balances have declined over time as liabilities mature, terminate or are retired. All of the debt within the corporate segment is managed collectively and is serviced by available liquidity.

The following table summarizes the consolidated results of our corporate segment for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Net investment income	$ 10	$ 8	25%	$ 25	$ 26	-4%
Fees	11	13	-15%	35	39	-10%
Net gains (losses) on financial instruments at fair value and foreign exchange	(2)	(45)	-96%	(105)	41	n/m
Net investment losses related to other-than-temporary impairments	-	-	-%	(1)	(1)	-%
Net gains (losses) on extinguishment of debt	-	-	-%	5	(1)	n/m
Other net realized gains (losses)	(2)	(1)	100%	(4)	22	-118%
Total revenues	17	(25)	n/m	(45)	126	-136%
Operating	17	19	-11%	54	58	-7%
Interest	23	24	-4%	70	74	-5%
Total expenses	40	43	-7%	124	132	-6%
Income (loss) before income taxes	(23)	(68)	-66%	(169)	(6)	n/m
Provision (benefit) for income taxes	(8)	(25)	-68%	(50)	-	n/m
Net income (loss)	$ (15)	$ (43)	-65%	$ (119)	$ (6)	n/m

n/m - Percent change not meaningful.

NET INVESTMENT INCOME The increase in net investment income for the three months ended September 30, 2016 compared with the same period of 2015 was primarily due to investments in higher yielding assets. The decrease in net investment income for the nine months ended September 30, 2016 compared with the same period of 2015 was primarily due to lower average asset balances as a result of funding share repurchases.

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The favorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the three months ended September 30, 2016 compared with the same period of 2015 was primarily due to gains from mark-to-market changes of our interest rate swaps, fair value option investments and medium-term notes, partially offset by foreign exchange losses on Euro denominated liabilities from the weakening of the U.S. dollar. The unfavorable change in net gains (losses) on financial instruments at fair value and foreign exchange for the nine months ended September 30, 2016 compared with the same period of 2015 was primarily due to gains from the termination of interest rate swaps recorded in 2015, foreign exchange losses on Euro denominated liabilities from the weakening of the U.S. dollar and net losses on the sales of investments, partially offset by a decrease in losses from mark-to-market changes related to our interest rate swaps and medium-term notes.

OTHER NET REALIZED GAINS (LOSSES) The decrease in other net realized gains for the nine months ended September 30, 2016 compared with the same period of 2015 was primarily due to the gain from the sale of Cutwater recorded in the first quarter of 2015.

OPERATING EXPENSES Operating expenses decreased for the three and nine months ended September 30, 2016 compared with the same periods of 2015 primarily due to decreases in share-based compensation resulting from the vesting of restricted stock awards in 2015.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

INTEREST EXPENSE Interest expense decreased for the three and nine months ended September 30, 2016 compared with the same periods of 2015 primarily due to the continued maturities and repurchases of debt obligations issued by the Company.

PROVISION (BENEFIT) FOR INCOME TAXES The benefit for income taxes for the nine months ended September 30, 2016 was lower than the statutory rate of 35% principally due to foreign tax credit adjustments, partially offset by the fluctuation of the value of nontaxable warrants issued by the Company.

OPERATING INCOME (LOSS) In addition to the above results, we also analyze the operating performance of our corporate segment using operating income (loss), a non-GAAP measure. We believe operating income (loss), as used by management, is useful for an understanding of the results of operations of the Company. Operating income (loss) is not a substitute for net income (loss) determined in accordance with GAAP, and our definition of operating income (loss) may differ from that used by other companies.

The following table presents a reconciliation of GAAP net income (loss) to operating income (loss) for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income (loss)	$ (15)	$ (43)	$ (119)	$ (6)
Less: operating income adjustments:				
Mark-to-market gains (losses) on financial instruments(1)	10	(32)	(50)	23
Foreign exchange gains (losses)(1)	(6)	1	(24)	44
Net gains (losses) on sales of investments(1)	1	-	(10)	4
Net investment losses related to OTTI	-	-	(1)	(1)
Net gains (losses) on extinguishment of debt	-	-	5	(1)
Other net realized gains (losses)(2)	(2)	(1)	(4)	22
Operating income adjustment to the (provision) benefit for income tax(3)	1	13	24	(30)
Operating income (loss)	$ (19)	$ (24)	$ (59)	$ (67)

(1) - Gross amounts are reported within "Net gains (losses) on financial instruments at fair value and foreign exchange" on the Company's consolidated statements of operations.

(2) - Relates to the results from the sale of Cutwater.

(3) - Reported within "Provision (benefit) for income taxes" on the Company's consolidated statements of operations.

International and Structured Finance Insurance

Our international and structured finance insurance business is principally operated through MBIA Corp. We believe that MBIA Corp. does not provide significant economic value to MBIA Inc. and its shareholders. The financial guarantees issued by MBIA Corp. generally provide unconditional and irrevocable guarantees of the payment of the principal of, and interest or other amounts owing on, non-U.S. public finance and global structured finance insured obligations when due or, in the event MBIA Corp. has the right, at its discretion, to accelerate insured obligations upon default or otherwise. MBIA Insurance Corporation insures the investment contracts written by MBIA Inc., and if MBIA Inc. or such subsidiaries were to have insufficient assets to pay amounts due upon maturity or termination, MBIA Insurance Corporation would make such payments under its insurance policies. MBIA Insurance Corporation also insured debt obligations of other affiliates, including GFL and IMC. MBIA Corp. has also written insurance policies guaranteeing the obligations under CDS contracts of an affiliate, LaCrosse Financial Products, LLC ("LaCrosse"), and certain other derivative contracts, which may include termination payments that may become due in certain events, including the insolvency or payment defaults of MBIA Corp. or LaCrosse. Currently, MBIA Insurance Corporation provides reinsurance to MBIA Mexico.

MBIA Corp. insures non-U.S. public finance and global structured finance, including asset-backed obligations. MBIA Corp. has insured sovereign-related and sub-sovereign bonds, privately issued bonds used for the financing of utilities, toll roads, bridges, airports, public transportation facilities, and other types of infrastructure projects serving a substantial public purpose. Global structured finance and asset-backed obligations typically are securities repayable from cash flows generated by a specified pool of assets, such as residential and commercial mortgages, insurance policies, consumer loans, corporate loans and bonds, trade and export receivables, and leases for equipment, aircraft and real estate property. We no longer insure new credit derivative contracts except for transactions related to the restructuring or reduction of existing derivative exposure.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents our international and structured finance insurance segment results for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Net premiums earned	$ 23	$ 25	-8%	$ 66	$ 75	-12%
Net investment income	3	3	-%	9	9	-%
Fees and reimbursements	34	15	127%	57	50	14%
Change in fair value of insured derivatives:						
Realized gains (losses) and other settlements on insured derivatives	(4)	(18)	-78%	(20)	(30)	-33%
Unrealized gains (losses) on insured derivatives	20	21	-5%	-	121	-100%
Net change in fair value of insured derivatives	16	3	n/m	(20)	91	-122%
Net gains (losses) on financial instruments at fair value and foreign exchange	9	(11)	n/m	23	(19)	n/m
Other net realized gains (losses)	-	-	-%	1	-	n/m
Revenues of consolidated VIEs:						
Net investment income	5	12	-58%	25	37	-32%
Net gains (losses) on financial instruments at fair value and foreign exchange	8	13	-38%	-	9	-100%
Total revenues	98	60	63%	161	252	-36%
Losses and loss adjustment	22	46	-52%	103	84	23%
Amortization of deferred acquisition costs	15	18	-17%	42	59	-29%
Operating	13	13	-%	35	38	-8%
Interest	29	28	4%	86	83	4%
Expenses of consolidated VIEs:						
Operating	3	3	-%	10	10	-%
Interest	4	10	-60%	20	29	-31%
Total expenses	86	118	-27%	296	303	-2%
Income (loss) before income taxes	12	(58)	-121%	(135)	(51)	n/m
Provision (benefit) for income taxes	7	(20)	-135%	(48)	(19)	n/m
Net income (loss)	$ 5	$ (38)	-113%	$ (87)	$ (32)	n/m

n/m - Percent change not meaningful.

For the three and nine months ended September 30, 2016 and 2015, we did not write any new international and structured finance insurance. We do not expect to write new business in our international and structured finance insurance segment for the foreseeable future due to its current ratings and accumulated losses. Furthermore, MBIA UK is no longer permitted to write new business and doing so would require regulatory approval. Our primary objectives for MBIA Corp. are to satisfy claims of its policyholders, and to maximize future recoveries to its surplus note holders and, thereafter recoveries to preferred stock holders, if any. As of September 30, 2016, MBIA Corp.'s total insured gross par outstanding was $32.9 billion. Since December 31, 2007, MBIA Corp.'s total insured gross par outstanding has decreased approximately 90% from $331.2 billion.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

NET PREMIUMS EARNED Our international and structured finance insurance segment generates net premiums from insurance policies accounted for as financial guarantee contracts. Certain premiums may be eliminated in our consolidated financial statements as a result of the Company consolidating variable interest entities ("VIEs"). In addition, we generate net premiums from insured credit derivatives that are included in "Realized gains (losses) and other settlements on insured derivatives" on our consolidated statements of operations. The following table provides net premiums earned from our financial guarantee contracts for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Net premiums earned:						
U.S.	$ 5	$ 7	-29%	$ 12	$ 21	-43%
Non-U.S.	18	18	-%	54	54	-%
Total net premiums earned	$ 23	$ 25	-8%	$ 66	$ 75	-12%
VIEs (eliminated in consolidation)	$ 2	$ 3	-33%	$ 5	$ 9	-44%

Net premiums earned represent gross premiums earned net of premiums ceded to reinsurers, and include scheduled premium earnings and premium earnings from refunded issues. Net premiums earned decreased for the three and nine months ended September 30, 2016 compared with the same periods of 2015 primarily due to decreases in scheduled premiums earned from the maturity and early settlement of insured transactions with no writings of new insurance policies.

FEES AND REIMBURSEMENTS The increases in fees and reimbursements for the three and nine months ended September 30, 2016 compared with the same periods of 2015 were primarily due to increases in termination, waiver and consent fees related to ongoing management of our international and structured finance insurance business, partially offset by decreases in ceding commission income as a result of lower refunding activity. Due to the transaction-specific nature inherent in fees and reimbursements, these revenues can vary significantly from period to period.

NET CHANGE IN FAIR VALUE OF INSURED DERIVATIVES The Company no longer insures new credit derivative contracts. Realized losses on insured derivatives include payments made net of premiums and fees earned and salvage received. For the three months ended September 30, 2016 and 2015, premiums and fees earned on insured derivatives were $1 million and $5 million, respectively. For the nine months ended September 30, 2016 and 2015, premiums and fees earned on insured derivatives were $3 million and $12 million, respectively. Premiums earned related to insured credit derivatives will decrease over time as a result of settlements prior to maturity and scheduled amortizations. For the three and nine months ended September 30, 2016 and 2015, realized losses on insured derivatives resulted from claim payments on CMBS exposure.

For the three months ended September 30, 2016, unrealized gains on insured derivatives were principally the result of the reversal of unrealized losses from a termination of a CDS, improved spreads on our underlying collateral and unfavorable changes in the market's perception of MBIA Corp.'s nonperformance risk on its derivative liabilities. For the three months ended September 30, 2015, unrealized gains on insured derivatives were primarily the result of refining the credit rating of underlying collateral, shorter transaction lives, and the effects of principal amortization. For the nine months ended September 30, 2016, unrealized losses on insured derivatives were the result of favorable changes in the market's perception of MBIA Corp.'s nonperformance risk on its derivative liabilities partially offset by improved spreads on our underlying collateral and shorter transaction life. For the nine months ended September 30, 2015, unrealized gains on insured derivatives were principally the result of refining the credit rating of underlying collateral.

As of September 30, 2016, the cost of a five-year CDS referencing MBIA Corp. was 25.69% upfront plus 5% per annum compared with 29.58% upfront plus 5% per annum as of September 30, 2015. As of September 30, 2016 and December 31, 2015, the fair value of MBIA Corp.'s insured CDS liability was $85 million. Our mark-to-market on insured credit derivatives uses the most appropriate of the one to ten-year CDS cost for each transaction, and those costs ranged from 14.87% upfront plus 5% per annum to 26.43% upfront plus 5% per annum as of September 30, 2016. As of September 30, 2015, those costs ranged from 12.24% upfront plus 5% per annum to 30.7% upfront plus 5% per annum.

As of September 30, 2016, MBIA Corp. had $739 million of gross par outstanding on insured credit derivatives compared with $3.2 billion as of December 31, 2015. During the nine months ended September 30, 2016, $1.7 billion of gross par outstanding on insured credit derivatives were terminated or matured. As of September 30, 2016, five insured credit derivatives remained outstanding.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

NET GAINS (LOSSES) ON FINANCIAL INSTRUMENTS AT FAIR VALUE AND FOREIGN EXCHANGE The net gains on financial instruments and foreign exchange for the three and nine months ended September 30, 2016 were primarily related to gains from foreign currency revaluation of Chilean Unidad de Fomento denominated premium receivables. The net losses on financial instruments at fair value and foreign exchange for the three months ended September 30, 2015 were primarily due to foreign exchange currency losses on the sale of Euro denominated long-term debt. The net losses on financial instruments at fair value and foreign exchange for the nine months ended September 30, 2015 were primarily due to losses from foreign currency revaluation of Chilean Unidad de Fomento denominated premium receivables and foreign exchange currency losses on the sale of Euro denominated long-term debt.

REVENUES OF CONSOLIDATED VIEs For the three months ended September 30, 2016, total revenues of consolidated VIEs were $13 million compared with total revenues of $25 million for the same period of 2015. This decrease was primarily due to a decrease in net investment income from the deconsolidation of VIEs and changes in the value of loan repurchase commitments. For the nine months ended September 30, 2016, total revenues of consolidated VIEs were $25 million compared with total revenues of $46 million for the same period of 2015. This decrease was primarily due to a decrease in net investment income from the deconsolidation of VIEs, mark-to-market losses on second-lien RMBS from the changes in credit spreads and changes in the value of loan repurchase commitments. We elected to record at fair value certain instruments that are consolidated under accounting guidance for consolidation of VIEs, and as such, changes in fair value are reflected in earnings.

LOSS AND LOSS ADJUSTMENT EXPENSES MBIA's insured portfolio management group within our international and structured finance insurance business is responsible for monitoring international and structured finance insured obligations. The level and frequency of monitoring of any insured obligation depends on the type, size, rating and our assessed performance of the insured issue.

Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a description of the Company's loss reserving policy and additional information related to its loss reserves.

Summary of Financial Guarantee Insurance Losses and LAE

The following table presents information about our financial guarantee insurance losses and LAE recorded in accordance with GAAP for the three and nine months ended September 30, 2016 and 2015:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Losses and LAE related to expected payments	$ 19	$ 18	6%	$ 78	$ 123	-37%
Recoveries of expected payments	3	28	-89%	26	(39)	n/m
Gross losses incurred	22	46	-52%	104	84	24%
Reinsurance	-	-	-%	(1)	-	n/m
Losses and loss adjustment expenses	$ 22	$ 46	-52%	$ 103	$ 84	23%

n/m - Percent change not meaningful.

For the three months ended September 30, 2016, losses and LAE primarily related to increases in expected payments on insured second-lien RMBS transactions, partially offset by decreases in expected payments on CDOs.

For the nine months ended September 30, 2016, losses and LAE primarily related to increases in expected payments on insured first and second-lien RMBS transactions and decreases in projected collections from excess spread within insured second-lien RMBS securitizations, partially offset by decreases in expected payments on CDOs.

For the three months ended September 30, 2015, losses and LAE primarily related to decreases in projected collections from excess spread within insured second-lien RMBS securitizations and increases in expected payments on first-lien RMBS transactions.

For the nine months ended September 30, 2015, losses and LAE primarily related to decreases in projected collections from excess spread within insured second-lien RMBS securitizations and increases in expected payments on CDOs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

Excess spread is generated by performing loans within insured RMBS securitizations and is the difference between interest inflows on mortgage loan collateral and interest outflows on insured notes. The amount of excess spread depends on future loss trends (which include future delinquency trends, average time to charge-off/liquidate delinquent loans and the availability of pool mortgage insurance), the future spread between prime and the London Interbank Offered Rate ("LIBOR") interest rates, and borrower refinancing behavior which results in voluntary prepayments. Minor deviations in loss trends and voluntary prepayments may substantially impact the amounts we collect from excess spread. Excess spread may also include estimated recoverables from mortgage insurance contracts and subsequent recoveries on charged-off loans associated with the insured RMBS securitizations.

For the three and nine months ended September 30, 2016, losses and LAE incurred included the elimination of $25 million and $68 million of expenses, respectively, as a result of the consolidation of VIEs. The $25 million expense elimination included gross losses related to expected payments of $38 million, partially offset by gross recoveries of expected payments of $13 million. The $68 million expense elimination included gross losses related to expected payments of $107 million, partially offset by gross recoveries of expected payments of $39 million.

For the three and nine months ended September 30, 2015, losses and LAE incurred included the elimination of $18 million and $38 million of expenses, respectively, as a result of the consolidation of VIEs. The $18 million expense elimination included gross losses related to expected payments of $23 million, partially offset by gross recoveries of expected payments of $5 million. The $38 million expense elimination included gross losses related to expected payments of $33 million and gross recoveries of expected payments of $5 million.

The Company's insurance loss recoverable represents expected potential recoveries of paid claims based on probability-weighted net cash inflows discounted at applicable risk-free rates as of the measurement date. The loss and LAE reserves represent the present value of loss payments we expect to make on the insured transactions, net of any estimated recoveries, at applicable risk-free rates as of the measurement date. As payments are made, a portion of those expected future receipts is recorded within "Insurance loss recoverable" on our consolidated balance sheets. Virtually all of the payments that we make go to reduce the principal balances of the securitizations. The following table presents information about our insurance loss recoverable and reserves as of September 30, 2016 and December 31, 2015.

In millions	September 30, 2016	December 31, 2015	Percent Change
Assets:			
Insurance loss recoverable	$ 354	$ 573	-38%
Reinsurance recoverable on paid and unpaid losses (1)	6	5	20%
Liabilities:			
Gross loss and LAE reserves	496	550	-10%
Expected recoveries on unpaid losses	(55)	(79)	-30%
Loss and LAE reserves	$ 441	$ 471	-6%

(1) - Reported within "Other assets" on our consolidated balance sheets.

As of September 30, 2016, loss and LAE reserves on our remaining insured first and second-lien RMBS exposure were $355 million, after eliminating $31 million related to our consolidated VIEs.

Included in MBIA Corp.'s loss and LAE reserves are estimated future claims payments for insured obligations for which a payment default has occurred and MBIA Corp. has already paid a claim and for insured obligations where a payment default has not yet occurred. The following table includes LAE reserves, but excludes par outstanding, as of September 30, 2016 and December 31, 2015 for two issues that had no expected future claim payments or par outstanding, but for which MBIA Corp. was obligated to pay LAE incurred in prior periods. As of September 30, 2016 and December 31, 2015, loss and LAE reserves comprised the following:

	Number of Issues (1)		Loss and LAE Reserve		Par Outstanding	
$ in millions	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Gross of reinsurance:						
Issues with defaults	112	105	$ 377	$ 336	$ 3,391	$ 3,925
Issues without defaults	3	6	64	135	805	1,019
Total gross of reinsurance	115	111	$ 441	$ 471	$ 4,196	$ 4,944

(1) - An "issue" represents the aggregate of financial guarantee policies that share the same revenue source for purposes of making debt service payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

POLICY ACQUISITION COSTS AND OPERATING EXPENSES International and structured finance insurance segment expenses for the three and nine months ended September 30, 2016 and 2015 are presented in the following table:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Percent Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Gross expenses	$ 13	$ 13	-%	$ 36	$ 39	-8%
Amortization of deferred acquisition costs	$ 15	$ 18	-17%	$ 42	$ 59	-29%
Operating	13	13	-%	35	38	-8%
Total insurance operating expenses	$ 28	$ 31	-10%	$ 77	$ 97	-21%

Gross expenses represent total insurance expenses before the deferral of any policy acquisition costs. Gross expenses decreased for the nine months ended September 30, 2016 compared with the same period of 2015 primarily due to decreases in compensation expense and premium taxes and assessments. Operating expenses decreased for the nine months ended September 30, 2016 compared with the same period of 2015 due to a decrease in gross expenses.

The decreases in the amortization of deferred acquisition costs for the three and nine months ended September 30, 2016 compared with the same periods of 2015 were due to higher refunding activity in 2015. We did not defer a material amount of policy acquisition costs during the first nine months of 2016 or 2015. Policy acquisition costs in these periods were primarily related to commissions and premium taxes on installment policies written in prior periods.

INSURED PORTFOLIO EXPOSURE The credit quality of our international and structured finance insured portfolio is assessed in the same manner as our U.S. public finance insured portfolio. As of September 30, 2016 and December 31, 2015, 25% and 22%, respectively, of our international and structured finance insured portfolio, was rated below investment grade, before giving effect to MBIA's guarantees, based on MBIA's internal ratings, which are generally more current than the underlying ratings provided by S&P and Moody's for this subset of our insured portfolio.

European Sovereign Debt Exposure

Outside the U.S., financial guarantee insurance has been used on structured finance securities and by issuers of sovereign-related and sub-sovereign bonds, utilities and providers of public purpose projects, among others. MBIA does not insure any direct European sovereign debt. However, we do insure both structured finance and public finance obligations in select international markets. MBIA's indirect European sovereign insured debt exposure totaled $5.5 billion as of September 30, 2016 and included obligations of sovereign-related and sub-sovereign issuers, such as regions, departments, and sovereign-owned and private entities that are supported by a sovereign state, region or department. Sovereign-related includes Private Finance Initiative transactions that involve private entities that receive contractual payments for providing services to public sector entities. Of the $5.5 billion of insured gross par outstanding, $478 million and $201 million were related to Spain and Ireland, respectively. The remaining $4.8 billion was related to the U.K. We do not insure any sovereign or sub-sovereign debt from Greece. We closely monitor our existing insured European portfolios on an ongoing basis. We consider country risk, including economic and political factors, the type and quality of local regulatory oversight, the strength of the legal framework in each country and the stability of the local institutional framework. We also monitor local accounting, regulatory and legal requirements, local financial market developments, the impact of exchange rates and local demand dynamics. A default by one or more sovereign issuers could have an adverse effect on our insured debt exposures. The Company has an immaterial amount of European sovereign debt holdings.

International and Structured Finance Insurance Selected Portfolio Exposures

The following is a summary of selected significant exposures within the insured portfolio of our international and structured finance insurance segment. Many of these sectors are and have been considered volatile over the past several years. We may experience considerable incurred losses and future expected payments in certain of these sectors. There can be no assurance that the loss reserves described below will be sufficient or that we will not experience losses on transactions on which we currently have no loss reserves, in particular if the economy deteriorates.

Residential Mortgage Exposure

MBIA Corp. insures mortgage-backed securities ("MBS") backed by residential mortgage loans, including second-lien RMBS transactions (revolving home equity lines of credit ("HELOC") loans and closed-end second ("CES") mortgages). MBIA Corp. also insures MBS backed by first-lien alternative A-paper ("Alt-A") and subprime mortgage loans directly through RMBS securitizations. There was considerable stress and deterioration in the mortgage market since 2008 reflected by heightened delinquencies and losses, particularly related to Alt-A and subprime mortgage loans originated during 2005, 2006 and 2007.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The following table presents the gross par outstanding of MBIA Corp.'s total direct RMBS insured exposure as of September 30, 2016 and December 31, 2015. Amounts include the gross par outstanding related to transactions that the Company consolidates under accounting guidance for VIEs.

In millions	Gross Par Outstanding as of		
Collateral Type	September 30, 2016	December 31, 2015	Percent Change
HELOC Second-lien	$ 1,490	$ 1,861	-20%
CES Second-lien	1,471	1,768	-17%
Alt-A First-lien(1)	1,445	1,578	-8%
Subprime First-lien	630	724	-13%
Prime First-lien	59	99	-40%
Total	$ 5,095	$ 6,030	-16%

(1) - Includes international exposure of $427 million and $449 million as of September 30, 2016 and December 31, 2015, respectively.

Collateralized Debt Obligations and Related Instruments

As part of our international and structured finance insurance activities, MBIA Corp. typically provided guarantees on senior and, in a limited number of cases, mezzanine tranches of CDOs, as well as protection on structured CMBS pools and corporate securities, and CDS referencing such securities. The following discussion, including reported amounts and percentages, includes insured CDO transactions consolidated by the Company as VIEs.

As of September 30, 2016, MBIA Corp.'s $2.9 billion CDO portfolio represented 9% of its total insured gross par outstanding of $32.9 billion. As of December 31, 2015, MBIA Corp.'s $6.0 billion CDO portfolio represented 14% of its total insured gross par outstanding of $41.6 billion. In addition to the below table, MBIA Corp. insures approximately $370 million in commercial real estate ("CRE") loan pools, comprising both European and domestic assets. The distribution of our insured CDO and related instruments portfolio by collateral type is presented in the following table:

In millions	Gross Par Outstanding as of		
Collateral Type	September 30, 2016	December 31, 2015	Percent Change
Multi-sector CDOs	$ 418(1)	$ 688	-39%
Investment grade corporate CDOs	-	1,200	-100%
High yield corporate CDOs	1,787	2,420	-26%
Structured CMBS pools	311	1,002	-69%
CRE CDOs	385	698	-45%
Total	$ 2,901	$ 6,008	-52%

(1) - Excludes $45 million of gross par outstanding where MBIA's insured exposure has been fully offset by way of loss remediation transactions.

Loss Remediation Transactions

We may seek to purchase, directly or indirectly, obligations guaranteed by MBIA or seek to commute policies. The amount of insurance exposure reduced, if any, and the nature of any such actions will depend on market conditions, pricing levels from time to time, and other considerations. In some cases, these activities may result in a reduction of loss reserves, but in all cases they are intended to limit our ultimate losses and reduce the future volatility in loss development on the related policies. Our ability to purchase guaranteed obligations and to commute policies will depend on management's assessment of available liquidity.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

U.S. Public Finance and International and Structured Finance Reinsurance

Reinsurance enables the Company to cede exposure for purposes of syndicating risk. When a reinsurer is downgraded by one or more of the rating agencies, less capital credit is given to MBIA under rating agency models and the overall value of the reinsurance to MBIA is reduced. The Company generally retains the right to reassume the business ceded to reinsurers under certain circumstances, including a reinsurer's rating downgrade below specified thresholds. The following table presents information about our reinsurance agreements as of September 30, 2016 for our U.S. public finance and international and structured finance insurance operations:

In millions Reinsurers	Standard & Poor's Rating (Status)	Moody's Rating (Status)	Ceded Par Outstanding	Letters of Credit/Trust Accounts	Reinsurance Recoverable (1)
Assured Guaranty Re Ltd.	AA (Stable Outlook)	WR (2)	$ 2,824	$ 31	$ -
Assured Guaranty Corp.	AA (Stable Outlook)	A3 (Stable Outlook)	1,435	-	6
Overseas Private Investment Corporation	AA+ (Stable Outlook)	Aaa (Stable Outlook)	271	-	-
Others	A- or above	A2 or above	108	3	1
Total			$ 4,638	$ 34	$ 7

(1) - Total reinsurance recoverable is primarily recoverables on unpaid losses.
(2) - Represents a withdrawal of ratings.

MBIA requires certain unauthorized reinsurers to maintain bank letters of credit or establish trust accounts to cover liabilities ceded to such reinsurers under reinsurance contracts. The Company remains liable on a primary basis for all reinsured risk. Based on MBIA's assessment of the credit risk of its reinsurers and expected claims under the reinsurance agreements, MBIA believes that its reinsurers remain capable of meeting their obligations, although there can be no assurance of such in the future.

As of September 30, 2016, the aggregate amount of insured par outstanding ceded by MBIA to reinsurers under reinsurance agreements was $4.6 billion compared with $5.3 billion as of December 31, 2015. As of September 30, 2016, $3.8 billion of the ceded par outstanding was ceded from our U.S. public finance insurance segment and $833 million was ceded from our international and structured finance insurance segment. Under National's reinsurance agreement with MBIA Corp., if a reinsurer of MBIA Corp. is unable to pay claims ceded by MBIA Corp. on U.S. public finance exposure, National will assume liability for such ceded claim payments.

Taxes

Provision for Income Taxes

The Company's income taxes and the related effective tax rates for the three and nine months ended September 30, 2016 and 2015 are presented in the following table:

In millions	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Income (loss) before income taxes	$ 55	$ (55)	$ (101)	$ 150
Provision (benefit) for income taxes	$ 24	$ (20)	$ (28)	$ 52
Effective tax rate	43.6%	36.4%	27.7%	34.7%

For the nine months ended September 30, 2016, our effective tax rate applied to our income (loss) before income taxes was lower than the U.S. statutory tax rate of 35% primarily due to a foreign tax credit adjustment, partially offset by the nontaxable fair value gains on warrants issued by the Company.

For the nine months ended September 30, 2015, our effective tax rate applied to our income (loss) before income taxes approximated the U.S. statutory tax rate of 35%.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

RESULTS OF OPERATIONS (continued)

The Company is party to a tax allocation agreement with members of its holding company system effective January 1, 1987. The agreement was amended and restated effective September 8, 2011 to change the method of calculating each domestic insurer's tax liability to the method permitted by paragraph 3(a) of Department Circular Letter #33 (1979). At that time, the agreement was submitted to the NYSDFS for review and non-disapproval pursuant to Section 1505 of NYIL.

Refer to "Note 9: Income Taxes" in the Notes to Consolidated Financial Statements for a further discussion of income taxes, including any valuation allowance against the Company's deferred tax assets and its accounting for tax uncertainties.

CAPITAL RESOURCES

The Company manages its capital resources to minimize its cost of capital while maintaining appropriate claims-paying resources ("CPR") for National and MBIA Corp. The Company's capital resources consist of total shareholders' equity, total debt issued by MBIA Inc. for general corporate purposes, and surplus notes issued by MBIA Corp. Total capital resources were $5.1 billion and $5.2 billion as of September 30, 2016 and December 31, 2015, respectively. MBIA Inc. uses its capital resources to support the business activities of its subsidiaries. As of September 30, 2016, MBIA Inc.'s investments in subsidiaries totaled $4.2 billion.

In addition, MBIA Inc. also supports the MTN and investment agreement obligations issued by the Company. We seek to maintain sufficient liquidity and capital resources to meet the Company's general corporate needs and debt service. Based on MBIA Inc.'s debt service requirements and expected operating expenses, we expect that MBIA Inc. will have sufficient cash to satisfy its debt obligations and its general corporate needs over time from distributions from its operating subsidiaries; however, there can be no assurance that MBIA Inc. will have sufficient cash in the event of unanticipated payments. In addition, the Company may also consider raising third-party capital. For further information, see "Strategic Plan Related and Other Risk Factors" in Part I, Item 1A, "Risk Factors" included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 and "Liquidity—MBIA Inc. Liquidity" section for additional information about MBIA Inc.'s liquidity.

Securities Repurchases

Repurchases of debt and common stock may be made from time to time in the open market or in private transactions as permitted by securities laws and other legal requirements. We may also choose to redeem debt obligations where permitted by the relevant agreements. MBIA Inc. or its subsidiaries may repurchase or redeem outstanding common shares of MBIA Inc. and outstanding debt obligations at prices that we deem to be economically advantageous.

Equity securities

The Company and its subsidiaries' share repurchases that were authorized under share repurchase programs, for the nine months ended September 30, 2016 are presented in the following table:

In millions except per share amounts	Total Number of Shares Purchased	Average Price Paid Per Share
First Quarter of 2016	14.9	$ 6.30
Second Quarter of 2016	1.7	7.02
Third Quarter of 2016	-	-
Total	16.6	6.37

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

During the first quarter of 2016, we exhausted the capacity remaining under the October 28, 2015 repurchase program by repurchasing $94 million of common shares of MBIA Inc.

On February 23, 2016, the Company's Board of Directors authorized the repurchase by the Company and its subsidiaries of up to $100 million of its outstanding shares under a new share repurchase authorization. As of November 2, 2016, $88 million remained available to repurchase under this new program.

Debt securities

During the nine months ended September 30, 2016, we repurchased $6 million par value outstanding of GFL MTNs issued by our corporate segment at a weighted average cost of approximately 97% of par value.

Insurance Statutory Capital

National and MBIA Insurance Corporation are incorporated and licensed in, and are subject to primary insurance regulation and supervision by, the State of New York. MBIA UK is authorized by the PRA and regulated by the FCA and the PRA in the U.K. MBIA Mexico is regulated by the Comisión Nacional de Seguros y Fianzas in Mexico. National and MBIA Insurance Corporation each are required to file detailed annual financial statements, as well as interim financial statements, with the NYSDFS and similar supervisory agencies in each of the other jurisdictions in which it is licensed. These financial statements are prepared in accordance with New York State and the National Association of Insurance Commissioners' statements of U.S. STAT and assist our regulators in evaluating minimum standards of solvency, including minimum capital requirements, and business conduct. MBIA UK is required to file quarterly and annual regulatory returns with the PRA and the FCA.

National

Capital and Surplus

National reported total statutory capital of $3.5 billion and $3.4 billion as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, statutory capital comprised $2.7 billion of policyholders' surplus and $803 million of contingency reserves. National had statutory net income of $139 million for the nine months ended September 30, 2016. As of September 30, 2016, National's unassigned surplus was $2.1 billion.

In order to maintain its New York State financial guarantee insurance license, National is required to maintain a minimum of $65 million of policyholders' surplus. National is also required to maintain contingency reserves to provide protection to policyholders in the event of extreme losses in adverse economic events. Refer to the following "MBIA Corp.—Capital and Surplus" section for additional information about contingency reserves under the NYIL. As of September 30, 2016 and December 31, 2015, National was in compliance with its aggregate and single risk limits.

NYIL regulates the payment of dividends by financial guarantee insurance companies and provides that such companies may not declare or distribute dividends except out of statutory earned surplus. Under NYIL, the sum of (i) the amount of dividends declared or distributed during the preceding 12-month period and (ii) the dividend to be declared may not exceed the lesser of (a) 10% of policyholders' surplus, as reported in the latest statutory financial statements or (b) 100% of adjusted net investment income for such 12-month period (the net investment income for such 12-month period plus the excess, if any, of net investment income over dividends declared or distributed during the two-year period preceding such 12-month period), unless the Superintendent of the NYSDFS approves a greater dividend distribution based upon a finding that the insurer will retain sufficient surplus to support its obligations.

National had positive earned surplus as of September 30, 2016, which provides National with dividend capacity. Subsequent to September 30, 2016, National declared and paid a dividend of $118 million to its ultimate parent, MBIA Inc. For the foreseeable future, we expect the as of right declared and paid dividend amounts from National to be limited to prior year net investment income and similar in amount to the 2016 dividend payment.

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to National to pay claims under its insurance policies. CPR consists of total financial resources and reserves calculated on a statutory basis. CPR has been a common measure used by financial guarantee insurance companies to report and compare resources and continues to be used by MBIA's management to evaluate changes in such resources. We have provided CPR to allow investors and analysts to evaluate National using the same measure that MBIA's management uses to evaluate National's resources to pay claims under its insurance policies. There is no directly comparable GAAP measure. Our calculation of CPR may differ from the calculation of CPR reported by other companies.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

National's CPR and components thereto, as of September 30, 2016 and December 31, 2015 are presented in the following table:

In millions	As of September 30, 2016	As of December 31, 2015
Policyholders' surplus	$ 2,739	$ 2,478
Contingency reserves	803	910
Statutory capital	3,542	3,388
Unearned premium reserve	852	1,042
Present value of installment premiums (1)	189	197
Premium resources (2)	1,041	1,239
Net loss and LAE reserves (1)	(112)	(30)
Salvage reserves	260	102
Gross loss and LAE reserves	148	72
Total claims-paying resources	$ 4,731	$ 4,699

(1) - Calculated using a discount rate of 3.04% as of September 30, 2016 and December 31, 2015.
(2) - Includes financial guarantee and insured credit derivative related premiums.

MBIA Insurance Corporation

Capital and Surplus

MBIA Insurance Corporation reported total statutory capital of $674 million as of September 30, 2016 compared with $885 million as of December 31, 2015. As of September 30, 2016, statutory capital comprised $406 million of policyholders' surplus and $268 million of contingency reserves. For the nine months ended September 30, 2016, MBIA Insurance Corporation had a statutory net loss of $144 million. MBIA Insurance Corporation's policyholders' surplus as of September 30, 2016 included a negative unassigned surplus of $1.6 billion. As of September 30, 2016, MBIA Insurance Corporation's policyholders' surplus was negatively impacted by $125 million, as it was not permitted to treat the portion of its investment in subsidiaries in excess of 60% of net admitted assets less the par value of common and preferred stock and liabilities as an admitted asset, as required under NYIL. This overage was primarily caused by a decrease in MBIA Insurance Corporation's policyholders' surplus due to insured losses in the past. MBIA Insurance Corporation's policyholders' surplus may be further negatively impacted if future additional insured losses are incurred and the percentage of its assets invested in subsidiaries continues to increase.

As of September 30, 2016, MBIA Insurance Corporation recognized estimated recoveries of $406 million, net of reinsurance on a statutory basis related to put-backs of ineligible mortgage loans in its insured transactions and $337 million related to excess spread recoveries on second-lien RMBS, net of reinsurance. These excess spread recoveries represented 50% of MBIA Insurance Corporation's statutory capital as of September 30, 2016. There can be no assurance that we will be successful or that we will not be delayed in realizing these recoveries. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for additional information about these recoveries.

Under NYIL, MBIA Insurance Corporation is also required to establish a contingency reserve to provide protection to policyholders in the event of extreme losses in adverse economic events. The amount of the reserve is based on the percentage of principal insured or premiums earned, depending on the type of obligation (net of collateral, reinsurance, refunding, refinancings and certain insured securities). Reductions in the contingency reserve may be recognized based on excessive reserves and under certain stipulated conditions, subject to the approval of the Superintendent of the NYSDFS. As a result of regulatory approved reductions, MBIA Insurance Corporation's contingency reserves of $268 million as of September 30, 2016 represented reserves on 36 of the 287 outstanding credits insured by MBIA Insurance Corporation.

In order to maintain its New York State financial guarantee insurance license, MBIA Insurance Corporation is required to maintain a minimum of $65 million of policyholders' surplus. Under NYIL, MBIA Insurance Corporation is required to invest its minimum surplus and contingency reserves and 50% of its loss reserves and unearned premium reserves in certain qualifying assets. As of September 30, 2016, MBIA Insurance Corporation maintained its minimum requirement of policyholders' surplus and did not have enough qualifying assets to support its contingency reserves and 50% of its loss reserves and unearned premium reserves. As of September 30, 2016 and December 31, 2015, MBIA Insurance Corporation was in compliance with its aggregate risk limits under the NYIL, but was not in compliance with certain of its single risk limits. If new overages occur with respect to its single risk limits, MBIA Insurance Corporation will report them to the NYSDFS. If MBIA Insurance Corporation is not in compliance with its aggregate risk and its single risk limits, the NYSDFS may prevent MBIA Insurance Corporation from transacting any new financial guarantee insurance business until it no longer exceeds the limitations.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

In connection with MBIA Insurance Corporation obtaining approval from the NYSDFS to release excessive contingency reserves in previous periods, MBIA Insurance Corporation agreed that it would not pay any dividends without prior approval from the NYSDFS. Due to its significant negative earned surplus, MBIA Insurance Corporation has not had the statutory capacity to pay dividends since December 31, 2009. Based on estimated future income, MBIA Insurance Corporation is not expected to have any statutory capacity to pay any dividends for the foreseeable future.

As of September 30, 2016, the par amount outstanding of MBIA Insurance Corporation's 14% Fixed-to-Floating Rate Surplus Notes due January 15, 2033 (the "Surplus Notes") was $953 million. Section 1307 of the Insurance Law and the Fiscal Agency Agreement governing the surplus notes (the "Fiscal Agency Agreement"), which was approved as it relates to Section 1307 by the NYSDFS in connection with the issuance of the Surplus Notes, each impose restrictions on the payments of principal and interest (or the redemption price or any make-whole premium) on the Surplus Notes ("Surplus Note Payments"). Section 1307 of the Insurance Law provides that any payments on surplus notes issued by an insurer "shall be repaid only out of free and divisible surplus of such insurer with the approval of the Superintendent whenever, in his/her judgment, the financial condition of such insurer warrants." The Superintendent has broad discretion in determining whether to allow us to make Surplus Note Payments. We are not aware of any guidelines or interpretations that govern the exercise of the Superintendent's discretion under Section 1307 in determining whether the financial condition of an insurer warrants the making of such payments. The Fiscal Agency Agreement provides that (a) Surplus Note Payments may be made only with the prior approval of the Superintendent, whenever, in his/her judgment, the financial condition of MBIA Insurance Corporation warrants, and (b) any such Surplus Note Payments may only be made to the extent MBIA Insurance Corporation has sufficient "Eligible Surplus" to make such payments. The Fiscal Agency Agreement defines "Eligible Surplus" as MBIA Insurance Corporation "surplus as regards policyholders," less the sum of its "common capital stock" and "preferred capital stock", as shown on its annual and quarterly statements filed with state insurance regulatory authorities. While the insurance law does not explicitly set forth the calculation of "free and divisible surplus", MBIA believes that the calculation of Eligible Surplus, as set forth in the Fiscal Agency Agreement and as accepted by the NYSDFS, is the appropriate calculation of "free and divisible surplus." MBIA Insurance Corporation's "free and divisible surplus," determined as set forth above, was $115 million as of September 30, 2016 representing a decrease of $203 million from December 31, 2015. The decrease in MBIA Insurance Corporation's "free and divisible surplus" during the nine months ended September 30, 2016 primarily resulted from a statutory net loss of $144 million for the nine months ended September 30, 2016. MBIA Insurance Corporation is required to seek the Superintendent's approval to make payments of interest and principal when scheduled on the Surplus Notes. There is no assurance the Superintendent will approve Surplus Note Payments. Notwithstanding the sufficiency of MBIA Insurance Corporation's Eligible Surplus available for the payment of Surplus Note Payments, the NYSDFS may deny approval of any Surplus Note Payments if the Superintendent concludes that MBIA Insurance Corporation's financial condition does not warrant such approval.

The NYSDFS has not approved MBIA Insurance Corporation's requests to make interest payments on the Surplus Notes since, and including, the January 15, 2013 interest payment. The NYSDFS has cited both MBIA Insurance Corporation's liquidity and financial condition as well as the availability of "free and divisible surplus" as the basis for such non-approvals. As of October 15, 2016, the most recent scheduled interest payment date, there was $482 million of unpaid interest on the par amount outstanding of $953 million of the Surplus Notes. The unpaid interest on the Surplus Notes will become due on the first business day on or after which MBIA Insurance Corporation obtains approval to pay some or all of such unpaid interest. No interest has been accrued or will accrue on the deferred interest.

Claims-Paying Resources (Statutory Basis)

CPR is a key measure of the resources available to MBIA Corp. to pay claims under its insurance policies. CPR consists of total financial resources and reserves calculated on a statutory basis. CPR has been a common measure used by financial guarantee insurance companies to report and compare resources, and continues to be used by MBIA's management to evaluate changes in such resources. We have provided CPR to allow investors and analysts to evaluate MBIA Corp., using the same measure that MBIA's management uses to evaluate MBIA Corp.'s resources to pay claims under its insurance policies. There is no directly comparable GAAP measure. Our calculation of CPR may differ from the calculation of CPR reported by other companies.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

CAPITAL RESOURCES (continued)

MBIA Corp.'s CPR and components thereto, as of September 30, 2016 and December 31, 2015 are presented in the following table:

In millions	As of September 30, 2016	As of December 31, 2015
Policyholders' surplus	$ 406	$ 609
Contingency reserves	268	276
Statutory capital	674	885
Unearned premium reserve	335	356
Present value of installment premiums (1) (4)	446	520
Premium resources (2)	781	876
Net loss and LAE reserves (1)	(241)	(332)
Salvage reserves (3)	923	994
Gross loss and LAE reserves	682	662
Total claims-paying resources	$ 2,137	$ 2,423

(1) - Calculated using a discount rate of 5.18% as of September 30, 2016 and December 31, 2015.

(2) - Includes financial guarantee and insured credit derivative related premiums.

(3) - This amount primarily consists of expected recoveries related to the Company's excess spread and put-backs.

(4) - Based on the Company's estimate of the remaining life for its insured exposures.

LIQUIDITY

We use a liquidity risk management framework, the primary objective of which is to match liquidity resources to needs. We monitor our cash and liquid asset resources using daily cash forecasting and stress-scenario testing. Members of MBIA's senior management meet regularly to review liquidity metrics, discuss contingency plans and establish target liquidity levels. We evaluate and manage liquidity on a legal-entity basis to take into account the legal, regulatory and other limitations on available liquidity resources within the enterprise. The following is a discussion of our liquidity resources and requirements for our holding company and our insurance subsidiaries.

National Liquidity

The primary sources of cash within National are:

- principal and interest receipts on assets held in its investment portfolio; and
- premiums.

The primary uses of cash by National are:

- payments of operating expenses and taxes;
- loss payments on insured transactions; and
- payments of dividends.

The insurance policies issued or reinsured by National provide unconditional and irrevocable guarantees of payments of the principal of, and interest or other amounts owing on, insured obligations when due. In the event of a default in payment of principal, interest or other insured amounts by an issuer, National generally promises to make funds available in the insured amount within one to three business days following notification. In some cases, the amount due can be substantial, particularly if the default occurs on a transaction to which National has a large notional exposure or on a transaction structured with large, bullet-type principal maturities. The fact that the U.S. public finance insurance segment's financial guarantee contracts generally cannot be accelerated by a party other than the insurer helps to mitigate liquidity risk in this segment.

National maintains a simultaneous repurchase and reverse repurchase facility ("Asset Swap") with MBIA Inc. which provides MBIA Inc. with eligible assets to pledge under investment agreements and derivative contracts. As of September 30, 2016, the notional amount used under each of these agreements was $136 million and the fair value of collateral pledged by National and MBIA Inc. under these agreements was $139 million and $144 million, respectively. The net average interest rate on these transactions was 0.41% and 0.26% for the nine months ended September 30, 2016 and 2015, respectively.

As of September 30, 2016, National held cash and short-term investments of $363 million, of which $310 million was highly liquid and comprised highly rated commercial paper, money market funds and municipal, U.S. agency and corporate bonds. As of December 31, 2015, National held cash and short-term investments of $378 million, of which $336 million was highly liquid and comprised commercial paper, money market funds, and highly rated municipal, U.S. agency and corporate bonds.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Corporate Liquidity

The primary sources of cash available to MBIA Inc. to meet its liquidity needs are:

- available cash and liquid assets not subject to collateral posting requirements;
- dividends from subsidiaries;
- releases from tax sharing agreements, which are primarily funded by subsidiaries;
- principal and interest receipts on assets held in its investment portfolio; and
- access to capital markets.

The primary uses of cash by MBIA Inc. are:

- servicing outstanding corporate debt obligations, MTNs and investment agreements;
- collateral requirements under investment agreements, the Asset Swap and derivative arrangements;
- payments related to interest rate swaps;
- payments of operating expenses; and
- debt buybacks and share repurchases.

Based on our projections of National's and MBIA Corp.'s future earnings and losses, we expect that for the foreseeable future National will be the primary source of dividends and tax sharing agreement payments to MBIA Inc. Subsequent to September 30, 2016, National declared and paid a dividend of $118 million to its ultimate parent, MBIA Inc. There can be no assurance as to the amount and timing of any such future dividends. Also for the foreseeable future, we expect the declared and paid dividend amounts from National to be limited to prior year net investment income and similar in amount to the 2016 dividend payment. Refer to the "Capital Resources – Insurance Statutory Capital" section for additional information on payments of dividends. In addition, we do not expect MBIA Inc. to receive distributions from MBIA Corp. for the foreseeable future.

During the nine months ended September 30, 2016, $105 million was released to MBIA Inc. under the MBIA group tax sharing agreement and related escrow agreement. This amount represented National's liability under the tax sharing agreement for the 2013 tax year, which was released from escrow pursuant to the terms under the tax sharing agreement following the expiration of National's two-year net operating loss carry-back period under U.S. tax rules. During the nine months ended September 30, 2016, National paid to the Tax Escrow Account estimated 2016 taxes of $73 million. As of September 30, 2016, $295 million was held in escrow for the 2014 through 2016 tax years. Based on our projections of National's taxable income and the market performance of the Tax Escrow Account, we expect to release up to $94 million from the Tax Escrow Account related to the 2014 tax year in January of 2017. There can be no assurance that payments under the Tax Escrow Account from subsidiaries will be released to MBIA Inc.

Currently, the majority of the cash and securities of MBIA Inc. is pledged against investment agreement liabilities, the Asset Swap and derivatives, which limits its ability to raise liquidity through asset sales. If the market value or rating eligibility of the assets which are pledged against MBIA Inc.'s obligations were to decline, we would be required to pledge additional eligible assets in order to meet minimum required collateral amounts against these liabilities. To mitigate these risks, we seek to maintain cash and liquidity resources that we believe will be sufficient to make all payments due on our obligations and to meet other financial requirements, such as posting collateral. Contingent liquidity resources include: (1) sales of invested assets exposed to credit spread stress risk, which may occur at losses; (2) termination and settlement of interest rate swap agreements; and (3) accessing the capital markets. These actions, if taken, are expected to result in either additional liquidity or reduced exposure to adverse credit spread movements. There can be no assurance that these actions will be sufficient to fully mitigate this risk. Information concerning our credit spread sensitivity appears in Part I, Item 3, "Quantitative and Qualitative Disclosures about Market Risk."

As of September 30, 2016 and December 31, 2015, the liquidity positions of MBIA Inc. comprising cash and liquid assets for general corporate purposes, excluding the amounts held in escrow under its tax sharing agreement, were $237 million and $416 million, respectively.

MBIA Corp. Liquidity

The primary sources of cash within MBIA Corp. are:

- installment premiums;
- recoveries associated with loss payments; and
- principal and interest receipts on assets held in its investment portfolio.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

The primary uses of cash by MBIA Corp. are:

- loss or commutation payments on insured transactions;
- payments of operating expenses; and
- payments of principal and interest related to its surplus notes, to the extent approved by the NYSDFS. Refer to "Capital Resources—Insurance Statutory Capital" for a discussion on the non-approval of requests to the NYSDFS to pay interest on its surplus notes.

Insured transactions that require payment in full of the principal insured at maturity could present liquidity risk for MBIA Corp. as any salvage recoveries from such payments could be recovered over an extended period of time after the payment of the principal amount. MBIA Corp. is generally required to satisfy claims within one to three business days, and as a result seeks to identify potential claims in advance through our monitoring process. While our financial guarantee policies generally cannot be accelerated, thereby helping to mitigate liquidity risk, insurance of CDS and certain other derivative contracts may, in certain circumstances, including the occurrence of certain insolvency or payment defaults, be subject to termination by the counterparty, triggering a claim for the fair value of the contract. In order to monitor liquidity risk and maintain appropriate liquidity resources, we use the same methodology as we use to monitor credit quality and losses within our insured portfolio, including stress scenarios. Refer to "Note 5: Loss and Loss Adjustment Expense Reserves" in the Notes to Consolidated Financial Statements for a discussion of our loss process.

MBIA Corp. has recorded expected excess spread recoveries of $382 million as of September 30, 2016 associated with insured second-lien RMBS issues, including recoveries related to consolidated VIEs. MBIA Corp. has also recorded expected recoveries related to its claims against Credit Suisse for ineligible mortgage loans included in an MBIA Corp. insured RMBS transaction. There can be no assurance that it will be successful or not be delayed in realizing these recoveries. During the nine months ended September 30, 2016, MBIA Corp. collected $71 million of excess spread recoveries related to insured second-lien RMBS issues.

Over the last several years, the liquidity position of MBIA Corp. has been stressed by payments related to: RMBS exposures, both first and second-lien; CMBS exposures; commutations of insured transactions that reduces exposure and potential loss volatility; and a high yield corporate CDO exposure. Certain MBIA Corp. insured transactions, including the Zohar II Notes previously discussed, have near term substantial amounts due at maturity. MBIA Insurance Corporation expects that on the Zohar Maturity Date, it will be required to pay a claim under its policy for the Zohar II Claim. MBIA Insurance Corporation does not expect to have sufficient liquidity to pay such claim on the Zohar II Notes unless it arranges third-party financing to enable it to pay the claim.

MBIA Insurance Corporation is currently seeking to arrange third-party financing to increase its liquid assets to ensure that it has sufficient liquidity to pay the Zohar II Claim. MBIA Insurance Corporation's ability to arrange such financing, however, is constrained, and there is no assurance that it will be able to secure financing on acceptable terms. MBIA Insurance Corporation believes that any third-party financing will require approval by the NYSDFS. MBIA Insurance Corporation anticipates that the approval by the NYSDFS of the sale of MBIA UK, described herein, and of any third-party financing, if granted, would be based on (among other things) the NYSDFS concluding that MBIA Insurance Corporation will successfully execute its strategies to meet its obligations on the Zohar II Notes in a manner acceptable to the NYSDFS.

MBIA Insurance Corporation believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to satisfy its obligations under the Zohar II Notes on terms satisfactory to the NYSDFS, while maintaining sufficient assets to readily pay other policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the NYIL and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS. The NYSDFS enjoys broad discretion in this regard, and any determination they may make would not be limited to consideration of the matters described above. No assurance is given as to what action, if any, the NYSDFS may take. MBIA Insurance Corporation has also commenced preparing contingency plans with respect to a potential rehabilitation proceeding in the event that it is unable to restructure the Zohar II Notes or arrange financing to pay the amounts due on the Zohar II Notes on the Zohar Maturity Date, in each case on terms acceptable to MBIA Insurance Corporation.

In the event that MBIA Insurance Corporation makes any payment in respect of the Zohar II Notes, it will be entitled to reimbursement of such payment plus interest. MBIA Insurance Corporation believes that the primary source of such reimbursement will come from the liquidation of the Zohar II Collateral.

In addition, MBIA Insurance Corporation insured the Zohar I Insured Notes issued by Zohar I, a high yield corporate CDO, the assets of which also include, among other things, loans made to, and equity interests in, companies purportedly controlled by the Zohar Sponsor (all the Zohar I Assets). The Zohar I Insured Notes matured on November 20, 2015 and, after Zohar I failed to pay the amounts due on the Zohar I Insured Notes, MBIA Insurance Corporation paid a claim of $149 million on such Zohar I Insured Notes. As a result, MBIA Insurance Corporation is entitled to seek reimbursement of the MBIA Zohar I Claim from Zohar I and/or to exercise certain rights and remedies to seek recovery of such claim. In connection with the exercise of its rights and remedies, MBIA Insurance Corporation has directed the trustee for Zohar I to commence the Auction of all of the Zohar I Assets. All bids in the Auction are scheduled to be submitted by no later than November 29, 2016. MBIA Insurance Corporation has the right to submit the MBIA Credit Bid. In the event that any cash bids submitted in the Auction exceeds the MBIA Credit Bid, the Zohar I Assets will be sold for cash, and the cash will be applied pursuant to the Zohar I indenture priority of payments and the amounts remaining after payment of any senior expenses will be distributed to MBIA Insurance Corporation as reimbursement for the MBIA Zohar I Claim. In the event the MBIA Credit Bid is the highest bid submitted in the Auction, the Zohar I Assets will be transferred to MBIA Insurance Corporation in satisfaction of the MBIA Zohar I Claim.

While MBIA Insurance Corporation will seek to recover any payments it makes (plus interest and expenses) with respect to the Zohar I Notes and the Zohar II Notes, there can be no assurance that the value of the Zohar I Assets and/or Zohar II Assets will be sufficient to permit MBIA Insurance Corporation to recover all or substantially all of any such payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding with respect to MBIA Insurance Corporation would have any significant liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK or MBIA Mexico. For similar reasons, we believe that MBIA Corp. does not provide significant economic value to MBIA Inc. and its shareholders. Refer to the "Liquidity – MBIA Corp. Liquidity" section for additional information on MBIA Corp.'s liquidity position.

As of September 30, 2016, MBIA Corp. held cash and investments of $944 million, of which $238 million comprised cash and highly liquid assets that were immediately available to MBIA Insurance Corporation. Included in the $944 million was $599 million of cash and investments held by MBIA Insurance Corporation's subsidiaries. As of December 31, 2015, MBIA Corp. held cash and investments of $997 million, of which $264 million comprised cash and highly liquid assets that were immediately available to MBIA Insurance Corporation. Included in the $997 million was $642 million of cash and investments held by MBIA Insurance Corporation's subsidiaries. Currently, MBIA UK can only pay dividends to MBIA Insurance Corporation with the approval of the PRA; however, there is no certainty as to when such consent would be provided.

Consolidated Cash Flows

Information about our consolidated cash flows by category is presented on our consolidated statements of cash flows. The following table presents a summary of our consolidated cash flows for the nine months ended September 30, 2016 and 2015:

In millions	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	Percent Change
Statement of cash flow data:			
Net cash provided (used) by:			
Operating activities	$ (129)	$ 42	n/m
Investing activities	2,236	543	n/m
Financing activities	(2,412)	(886)	n/m
Effect of exchange rate changes on cash and cash equivalents	(1)	11	-109%
Cash and cash equivalents—beginning of period	522	782	-33%
Cash and cash equivalents—end of period	$ 216	$ 492	-56%

n/m - Percent change not meaningful.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Operating activities

Net cash provided by operating activities decreased for the nine months ended September 30, 2016 compared with the same period of 2015 primarily due to an increase in losses and LAE paid of $256 million, partially offset by a decrease in interest paid of $28 million and an increase in proceeds from recoveries and reinsurance of $27 million.

Investing activities

Net cash provided by investing activities increased for the nine months ended September 30, 2016 compared with the same period of 2015 primarily due to an increase in net proceeds from sales, paydowns and maturities of held-to-maturity investments of consolidated VIEs of $1.7 billion related to the deconsolidation of VIEs in 2016.

Financing activities

Net cash used by financing activities increased for the nine months ended September 30, 2016 compared with the same period of 2015 primarily due to an increase in the principal paydowns of consolidated VIE notes of $1.7 billion related to the deconsolidation of VIEs in 2016, partially offset by an increase in the purchases of treasury stock of $192 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Investments

The following discussion of investments, including references to consolidated investments, excludes investments reported under "Assets of consolidated variable interest entities" on our consolidated balance sheets. Investments of VIEs support the repayment of VIE obligations and are not available to settle obligations of MBIA. Our available-for-sale ("AFS") investments comprise high-quality fixed-income securities and short-term investments. The following table presents our investment portfolio as of September 30, 2016 and December 31, 2015:

In millions	As of September 30, 2016	As of December 31, 2015	Percent Change
Available-for-sale investments:			
U.S. public finance insurance			
Amortized cost	$ 4,172	$ 4,227	-1%
Unrealized net gain (loss)	61	(70)	n/m
Fair value	4,233	4,157	2%
International and structured finance insurance			
Amortized cost	810	627	29%
Unrealized net gain (loss)	24	7	n/m
Fair value	834	634	32%
Corporate			
Amortized cost	1,088	1,306	-17%
Unrealized net gain (loss)	76	23	n/m
Fair value	1,164	1,329	-12%
Total available-for-sale investments:			
Amortized cost	6,070	6,160	-1%
Unrealized net gain (loss)	161	(40)	n/m
Total available-for-sale investments at fair value	6,231	6,120	2%
Investments carried at fair value:			
U.S. public finance insurance			
Amortized cost	49	112	-56%
Unrealized net gain (loss)	-	21	-100%
Fair value	49	133	-63%
International and structured finance insurance			
Amortized cost	1	1	-%
Unrealized net gain (loss)	-	-	-%
Fair value	1	1	-%
Corporate			
Amortized cost	76	95	-20%
Unrealized net gain (loss)	-	(2)	-100%
Fair value	76	93	-18%
Total investments carried at fair value:			
Amortized cost	126	208	-39%
Unrealized net gain (loss)	-	19	-100%
Total investments carried at fair value	126	227	-44%
Other investments at amortized cost:			
U.S. public finance insurance	3	3	-%
Consolidated investments at carrying value	$ 6,360	$ 6,350	-%

n/m - Percent change not meaningful.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

The fair value of the Company's investments is based on prices which include quoted prices in active markets and prices based on market-based inputs that are either directly or indirectly observable, as well as prices from dealers in relevant markets. Differences between fair value and amortized cost arise primarily as a result of changes in interest rates and general market credit spreads occurring after a fixed-income security is purchased, although other factors may also influence fair value, including specific credit-related changes, supply and demand forces and other market factors. When the Company holds an AFS investment to maturity, any unrealized gain or loss currently recorded in accumulated other comprehensive income (loss) in the shareholders' equity section of the balance sheet is reversed. As a result, the Company would realize a value substantially equal to amortized cost. However, when investments are sold prior to maturity, the Company will realize any difference between amortized cost and the sale price of an investment as a realized gain or loss within its consolidated statements of operations.

Credit Quality

The credit quality distribution of the Company's AFS fixed-maturity investment portfolios, excluding short-term investments, based on ratings from Moody's as of September 30, 2016 is presented in the following table. Alternate ratings sources, such as S&P or the best estimate of the ratings assigned by the Company, have been used for a small percentage of securities that are not rated by Moody's.

	U.S. Public Finance Insurance		Corporate		International and Structured Finance Insurance		Total	
In millions	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments	Fair Value	% of Fixed-Income Investments
Available-for-sale:								
Aaa	$1,731	44%	$ 564	62%	$ 165	30%	$2,460	46%
Aa	1,066	27%	51	6%	286	52%	1,403	26%
A	784	20%	202	22%	73	13%	1,059	20%
Baa	149	4%	59	7%	10	2%	218	4%
Below investment grade	22	1%	10	1%	16	3%	48	1%
Not rated	172	4%	19	2%	-	- %	191	3%
Total	$3,924	100%	$ 905	100%	$ 550	100%	$5,379	100%
Short-term investments	306		257		283		846	
Investments carried at fair value	49		76		1		126	
Other investments	6		2		1		9	
Consolidated investments at carrying value	$4,285		$1,240		$ 835		$6,360	

As of September 30, 2016, the weighted average credit quality of the Company's AFS investment portfolios, excluding short-term and other investments, as presented in the preceding table are as follows:

	U.S. Public Finance Insurance	International and Structured Finance Insurance	Corporate
Weighted average credit quality ratings	Aa	Aa	Aa

Insured Investments

MBIA's consolidated investment portfolio includes investments that are insured by various financial guarantee insurers ("Insured Investments"), including investments insured by National and MBIA Corp. ("Company-Insured Investments"). As of September 30, 2016, Insured Investments at fair value represented $476 million or 7% of consolidated investments, of which $315 million or 5% of consolidated investments were Company-Insured Investments. As of September 30, 2016, based on the actual or estimated underlying ratings of our consolidated investment portfolio, without giving effect to financial guarantees, the weighted average rating of only the Insured Investments in the investment portfolio would be in the Baa range.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

In purchasing Insured Investments, the Company's third-party portfolio manager independently assesses the underlying credit quality, structure and liquidity of each investment, in addition to the creditworthiness of the insurer. Insured Investments are diverse by sector, issuer and size of holding. The third-party portfolio manager assigns underlying ratings to Insured Investments without giving effect to financial guarantees based on underlying ratings assigned by Moody's or S&P, when a rating is not published by Moody's. When a Moody's or S&P underlying rating is not available, the underlying rating is based on the portfolio manager's best estimate of the rating of such investment. A downgrade of a financial guarantee insurer has historically had an adverse effect on the fair value of investments insured by the downgraded financial guarantee insurer. If the Company determines that declines in the fair values of Insured Investments are other-than-temporary, the Company will record a realized loss through earnings.

The underlying ratings of the Company-Insured Investments as of September 30, 2016 are reflected in the following table. Amounts represent the fair value of such investments including the benefit of the MBIA guarantee. The ratings in the following table are based on ratings from Moody's. Alternate ratings sources, such as S&P, have been used for a small percentage of securities that are not rated by Moody's.

In millions Underlying Ratings Scale	U.S. Public Finance Insurance	Corporate	International and Structured Finance Insurance	Total
National:				
Aa	$ -	$ 26	$ -	$ 26
A	163	83	-	246
Total National	$ 163	$ 109	$ -	$ 272
MBIA Corp.:				
Aa	$ -	$ 17	$ -	$ 17
Baa	-	5	-	5
Below investment grade	-	10	12	22
Total MBIA Corp.	$ -	$ 32	$ 12	$ 44
Total Company-Insured Investments	$ 163	$ 141	$ 12	$ 316

Without giving effect to the National and MBIA Corp. guarantees of the Company-Insured Investments in the consolidated investment portfolio, as of September 30, 2016, based on actual or estimated underlying ratings, the weighted average rating of the consolidated investment portfolio was in the Aa range. The weighted average rating of only the Company-Insured Investments was in the Baa range, and investments rated below investment grade in the Company-Insured Investments were 3% of the total consolidated investment portfolio.

Impaired Investments

As of September 30, 2016 and December 31, 2015, we held impaired AFS investments (investments for which fair value was less than amortized cost) with a fair value of $1.0 billion and $2.8 billion, respectively.

We analyze impaired investments within our investment portfolio for OTTI on a quarterly basis. Key factors considered when assessing OTTI include but are not limited to: (a) structural and economic factors among security types that represent our largest exposure to credit impairment losses; (b) the duration and severity of the unrealized losses (i.e., a decline in the market value of a security by 20% or more at the time of the review, or 5% impaired at the time of review with a fair value below amortized cost for a consecutive 12-month period); and (c) the results of various cash flow modeling techniques. Our cash flow analysis considers all sources of cash, including credit enhancement, that support the payment of amounts owed by an issuer of a security. This includes the consideration of cash to be provided by financial guarantors, including National and MBIA Corp., resulting from an actual or potential insurance policy claim.

Refer to "Note 8: Investments" in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for a discussion of our policy for OTTI and our determination of credit loss.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

LIQUIDITY (continued)

Debt Obligations

Principal payments due under our debt obligations for the three months ending December 31, 2016 and each of the subsequent four years ending December 31 and thereafter are presented in the following table. The repayment of principal on our surplus notes is reflected in 2018, which is the next call date but subject to approval by the NYSDFS. Principal payments under investment agreements are based on scheduled withdrawal dates. All other principal payments are based on contractual maturity dates. Foreign currency denominated liabilities are presented in U.S. dollars using applicable exchange rates as of September 30, 2016, and liabilities issued at a discount reflect principal amounts due at maturity.

	As of September 30, 2016						
In millions	Three Months Ending December 31, 2016	2017	2018	2019	2020	Thereafter	Total
Corporate segment:							
Long-term debt	$ -	$ -	$ -	$ -	$ -	$ 574	$ 574
Medium-term notes	5	36	56	57	-	1,117	1,271
Investment agreements	12	56	18	7	35	352	480
International and structured finance insurance segment:							
Variable interest entity notes	67	232	293	200	142	1,625	2,559
Surplus notes	-	-	940	-	-	-	940
Total	$ 84	$ 324	$1,307	$ 264	$ 177	$ 3,668	$5,824

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's market risk exposures relate to changes in interest rates, foreign exchange rates and credit spreads that affect the fair value of its financial instruments, namely investment securities, MTNs, investment agreement liabilities and certain derivative transactions. The Company's investment portfolio holdings are primarily U.S. dollar-denominated fixed-income securities including municipal bonds, U.S. government bonds, MBS, collateralized mortgage obligations, corporate bonds and ABS. In periods of rising and/or volatile interest rates, foreign exchange rates and credit spreads, profitability could be adversely affected should the Company have to liquidate these securities.

MBIA minimizes its exposure to interest rate risk, foreign exchange risk and credit spread movement through active portfolio management to ensure a proper mix of the types of securities held and to stagger the maturities of its fixed-income securities.

INTEREST RATE SENSITIVITY

Interest rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in interest rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of September 30, 2016 from instantaneous shifts in interest rates:

	Change in Interest Rates					
In millions	300 Basis Point Decrease	200 Basis Point Decrease	100 Basis Point Decrease	100 Basis Point Increase	200 Basis Point Increase	300 Basis Point Increase
Estimated change in fair value	$ 599	$ 353	$ 166	$ (173)	$ (294)	$ (421)

FOREIGN EXCHANGE RATE SENSITIVITY

The Company is exposed to foreign exchange rate risk in respect of assets and liabilities denominated in currencies other than U.S. dollars. In addition to our international insurance business, some of the remaining liabilities included in our corporate segment are denominated in currencies other than U.S. dollars. Also, the Company regularly makes investments denominated in foreign currencies. The majority of the Company's foreign exchange rate risks is with the pound sterling and the euro. Foreign exchange rate sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in foreign exchange rates. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of September 30, 2016 from instantaneous shifts in foreign exchange rates:

	Change in Foreign Exchange Rates			
	Dollar Weakens		Dollar Strengthens	
In millions	20%	10%	10%	20%
Estimated change in fair value	$ (2)	$ (1)	$ 1	$ 2

CREDIT RATE SENSITIVITY

Credit spread sensitivity can be estimated by projecting a hypothetical instantaneous increase or decrease in credit spreads. The following table presents the estimated pre-tax change in fair value of the Company's financial instruments as of September 30, 2016 from instantaneous shifts in credit spread curves. It was assumed that all credit spreads move by the same amount. It is more likely that the actual changes in credit spreads will vary by security. National's investment portfolio would generally be expected to experience lower credit spread volatility than other investment portfolios since National has higher credit quality and portfolio composition in sectors that have been less volatile historically. The changes in fair value reflect partially offsetting effects as the value of the investment portfolios generally changes in an opposite direction from the liability portfolio.

	Change in Credit Spreads		
In millions	50 Basis Point Decrease	50 Basis Point Increase	200 Basis Point Increase
Estimated change in fair value	$ 99	$ (100)	$ (381)

CREDIT DERIVATIVES SENSITIVITY

MBIA Corp. issued insurance policies insuring payments due on structured credit derivative contracts which are marked-to-market through earnings under the accounting principles for derivatives and hedging activities. The majority of these structured CDSs related to structured finance transactions with underlying reference obligations of cash securities and CDSs referencing liabilities of corporations or of other structured finance securitizations. The asset classes of the underlying reference obligations included corporate, ABS, RMBS and CMBS. These transactions were usually underwritten at or above a triple-A credit rating level. As of September 30, 2016, approximately 14% of the tranches insured by the Company were rated triple-A.

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

As changes in fair value can be caused by factors unrelated to the performance of MBIA Corp.'s business and credit portfolio, including general market conditions and perceptions of credit risk, as well as market use of credit derivatives for hedging purposes unrelated to the specific referenced credits in addition to events that affect particular credit derivative exposures, the application of fair value accounting will cause the Company's earnings to be more volatile than would be suggested by the underlying performance of MBIA's business operations and credit portfolio.

The following tables reflect sensitivities to changes in credit spreads, credit rating, recovery rates and MBIA Corp.'s upfront credit spreads. Each table stands on its own and should be read independently of each other. Refer to "Note 6: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for further information about the Company's financial assets and liabilities that are accounted for at fair value, including valuation techniques and disclosures required by GAAP.

Sensitivity to changes in credit spreads can be estimated by projecting a hypothetical instantaneous shift in credit spread curves. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s credit derivatives portfolio of instantaneous shifts in credit spreads as of September 30, 2016. In scenarios where credit spreads decreased, a floor of zero was used.

	Change in Credit Spreads (International and Structured Finance Insurance)						
In millions	600 Basis Point Decrease	200 Basis Point Decrease	50 Basis Point Decrease	0 Basis Point Change	50 Basis Point Increase	200 Basis Point Increase	600 Basis Point Increase
Estimated pre-tax net gains (losses)	$ 5	$ 2	$ 1	$ -	$ -	$ (1)	$ (3)
Estimated net fair value	$ (80)	$ (83)	$ (84)	$ (85)	$ (85)	$ (86)	$ (88)

Actual shifts in credit spread curves will vary based on the credit quality of the underlying reference obligations. In general, within any asset class, higher credit rated reference obligations will exhibit less credit spread movement than lower credit rated reference obligations. Additionally, the degree of credit spread movement can vary significantly for different asset classes. The basis point change presented in the preceding table, however, represents a fixed basis point change in referenced obligation credit spreads across all credit quality rating categories and asset classes and, therefore, the actual impact of spread changes would vary from this presentation depending on the credit rating and distribution across asset classes, both of which will adjust over time depending on new business written and runoff of the existing portfolio.

The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit derivatives portfolio by projecting a hypothetical change in the credit ratings as of September 30, 2016. A notch represents a one-step movement up or down in the credit rating.

	Change in Credit Ratings (International and Structured Finance Insurance)				
In millions	Three Notch Increase	One Notch Increase	No Change	One Notch Decrease	Three Notch Decrease
Estimated pre-tax net gains (losses)	$ 8	$ 2	$ -	$ (1)	$ (2)
Estimated net fair value	$ (77)	$ (83)	$ (85)	$ (86)	$ (87)

Recovery rates on defaulted collateral are an input into MBIA Corp.'s valuation model. Sensitivity to changes in the recovery rate assumptions used by MBIA Corp. can be estimated by projecting a hypothetical change in these assumptions. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit derivatives portfolio based on a change in the recovery rate assumptions as of September 30, 2016.

	Change in Recovery Rates (International and Structured Finance Insurance)				
In millions	20% Increase	10% Increase	No Change	10% Decrease	20% Decrease
Estimated pre-tax net gains (losses)	$ 5	$ 3	$ -	$ (2)	$ (4)
Estimated net fair value	$ (80)	$ (82)	$ (85)	$ (87)	$ (89)

Item 3. Quantitative and Qualitative Disclosures About Market Risk (continued)

Accounting principles for fair value measurements require MBIA Corp. to incorporate its own nonperformance risk in its valuation methodology. Sensitivity to changes in MBIA Corp.'s credit spreads can be estimated by projecting a hypothetical change in this assumption. The following table presents the estimated pre-tax change in fair value and the cumulative estimated net fair value of MBIA Corp.'s insured credit derivative portfolio. The actual upfront spread used in the valuation as of September 30, 2016 ranged from 14.87% to 26.43% based on the tenor of each transaction. The below amounts include an additional annual running credit spread of 5%.

	MBIA Corp.'s Upfront Credit Spread (International and Structured Finance Insurance)				
In millions	Increase by 15 Percentage Points	Increase by 7 Percentage Points	No Change	Decrease to 7 Percentage Points	Decrease to 15 Percentage Points
Estimated pre-tax net gains (losses)	$ 21	$ 10	$ -	$ (9)	$ (20)
Estimated net fair value	$ (64)	$ (75)	$ (85)	$ (94)	$ (105)

MBIA Corp.'s insurance of structured credit derivatives typically remain in place until the maturity of the derivative. With respect to MBIA Corp.'s insured structured credit derivatives, in the absence of credit impairments or the termination of derivatives at losses, the cumulative unrealized losses should reverse before or at maturity of the contracts. Additionally, in the event of the termination and settlement of a contract prior to maturity, any resulting gain or loss upon settlement will be recorded in our consolidated financial statements.

WARRANTS SENSITIVITY

Warrants issued by the Company to purchase shares of MBIA Inc. common stock are recorded at fair value in the Company's balance sheet and changes in fair value are recorded through earnings. The Company values these warrants using the Black-Scholes model. Refer to "Note 6: Fair Value of Financial Instruments" in the Notes to Consolidated Financial Statements for further information about the valuation of warrants issued by the Company.

While several factors influence the value of the Company's warrants, including stock price, stock volatility, interest rates and dividends, changes in the value of the Company's warrants are primarily driven by changes in the Company's stock price and volatility. The following tables present the estimated pre-tax change in fair value and the estimated aggregate fair value of the Company's warrants assuming hypothetical stock price and volatility changes as of September 30, 2016. Each table stands on its own and should be read independent of each other.

	Change in Stock Price				
In millions	25% Increase	10% Increase	No Change	10% Decrease	25% Decrease
Estimated pre-tax net gains (losses)	$ (12)	$ (4)	$ -	$ 4	$ 9
Estimated net fair value	$ (25)	$ (17)	$ (13)	$ (9)	$ (4)

	Change in Stock Volatility				
In millions	10% Increase	5% Increase	No Change	5% Decrease	10% Decrease
Estimated pre-tax net gains (losses)	$ (4)	$ (2)	$ -	$ 3	$ 5
Estimated net fair value	$ (17)	$ (15)	$ (13)	$ (10)	$ (8)

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934) was performed under the supervision and with the participation of the Company's senior management, including the Chief Executive Officer and the Chief Financial Officer. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, there have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934) during the fiscal quarter to which this report relates that have materially affected, or are likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

For a discussion of the Company's litigation and related matters, see "Note 13: Commitments and Contingencies" in the Notes to Consolidated Financial Statements of MBIA Inc. and Subsidiaries in Part I, Item 1. In the normal course of operating its businesses, MBIA Inc. may be involved in various legal proceedings. As a courtesy, the Company posts on its website under the section "Legal Proceedings," selected information and documents in reference to selected legal proceedings in which the Company is the plaintiff or the defendant. The Company will not necessarily post all documents for each proceeding and undertakes no obligation to revise or update them to reflect changes in events or expectations. The complete official court docket can be publicly accessed by contacting the clerk's office of the respective court where each litigation is pending.

Item 1A. Risk Factors

The following should be read in conjunction with and supplements the risk factors described under Part I, Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Insured Portfolio Loss Related Risk Factors

Some of the state, local and territorial governments and finance authorities and other providers of public services, located in the U.S. or abroad, that issue public finance obligations we insure are experiencing unprecedented fiscal stress that could result in increased credit losses or impairments on those obligations

Although the financial conditions of many state, local and territorial governments and finance authorities that issue the obligations we insure have improved since the financial crisis, some issuers continue to report unprecedented fiscal stress that has required them to significantly raise taxes or cut spending in order to satisfy their obligations. In particular, certain jurisdictions have significantly underfunded pension liabilities which are placing additional stress on their finances and are particularly challenging to restructure either through negotiation or under Chapter 9 of the United States Bankruptcy Code. If the issuers of the obligations in our public finance portfolio are unable to raise taxes, cut spending, or receive state or federal assistance, we may experience losses or impairments on those obligations, which could materially and adversely affect our business, financial condition and results of operations. The financial stress experienced by certain municipal issuers could result in the filing of Chapter 9 proceedings in states where municipal issuers are permitted to seek bankruptcy protection. In these proceedings, which remain rare, the resolution of bondholder claims (and by extension, those of bond insurers) may be subject to legal challenge by other creditors.

The Commonwealth of Puerto Rico and certain of its instrumentalities ("Puerto Rico") is experiencing fiscal stress and constrained liquidity due to, among other things, Puerto Rico's structural budget imbalance, limited access to the capital markets, a stagnating local economy, net migration of people out of Puerto Rico and a high debt burden. Although Puerto Rico has tried to address its significant financial challenges through various fiscal policies, it continues to experience fiscal stress. The Governor of Puerto Rico has stated that the island's approximately $70 billion in debt is "not payable" and has actively lobbied the U.S. Congress for bankruptcy reform and other Federal support. Furthermore, the Governor formed a working group to study and make recommendations regarding Puerto Rico's short- and long-term challenges. In September of 2015, this working group released a report that projected a sizable deficit of available cash resources to expenses and debt service over the next five years absent meaningful fiscal and structural reform, and concluded that a voluntary adjustment of the terms of the Commonwealth's debt is necessary. On June 30, 2016, after passage by the United States Congress, the President of the United States signed into law the Puerto Rico Oversight, Management and Economic Stability Act ("PROMESA"). PROMESA provides a statutory framework for the creation of an independent oversight board with powers relating to, among other things, the development and implementation of fiscal plans for Puerto Rico, as well as collective action and judicial processes—separate from the Federal Bankruptcy Code—by which Puerto Rico may restructure its debt on a consensual or non-consensual basis. While National anticipates consensual negotiations with the oversight board and Puerto Rico pursuant to PROMESA, there can be no assurance that National will be able to avoid a non-consensual outcome which could result in unanticipated losses to National which could be material.

Item 1A. Risk Factors (continued)

We continue to believe, based on our analysis of Puerto Rico's fiscal and structural circumstances, the details of our insured exposures, and our legal and contractual rights, that all of our insured Puerto Rico related debt will ultimately be substantially repaid. As of September 30, 2016, National had $3.6 billion of gross insured par outstanding ($4.0 billion of gross insured par outstanding when including accreted interest on insured capital appreciation bonds) related to Puerto Rico. Puerto Rico may be unable or unwilling to pay their obligations as and when due, in which case National would be required to pay claims of unpaid principal and interest when due under its insurance policies, which could be material. On July 1, 2016, Puerto Rico defaulted on scheduled debt service for National insured bonds and National paid gross claims in aggregate of $173 million as a result of these defaults. While National would seek to recover any claim payments it makes under its guarantees, there is no assurance that it will be able to recover such payments. To the extent that its claims payments are ultimately substantially greater than its claims recoveries, National may experience material losses on those obligations, which could materially and adversely affect our business, financial condition and results of operations. Refer to the "U.S. Public Finance Insurance Puerto Rico Exposures" section in Part II, Item 7 of MBIA's 2015 Form 10-K and in Part I, Item 2 of this Form 10-Q for additional information on our Puerto Rico exposures.

MBIA Corp. Risk Factors

Continuing elevated loss payments and delay or failure in realizing expected recoveries on insured RMBS transactions as well as certain other factors may materially and adversely affect MBIA Insurance Corporation's ability to meet liquidity needs and could cause the NYSDFS to put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding if it is not able to pay expected claims.

As an insurance company, MBIA Insurance Corporation is particularly sensitive to the risk that it will not have sufficient resources to meet contractual payment obligations when due or to make settlement payments in order to terminate insured exposures to avoid losses. Management's expected liquidity and capital forecasts for MBIA Insurance Corporation for 2016 reflect adequate resources to pay expected claims. However, there is risk to the liquidity forecast as the Company's remaining insured exposures are potentially volatile. There are risks to the capital forecast due to those potential liabilities, potential volatility in the collection of excess spread and the remaining put-back recoverable, and potential volatility associated with the remaining insured portfolio that could deteriorate and result in loss reserves and claim payments, including claims on insured exposures that in some cases may require large bullet payments.

At this time, MBIA Insurance Corporation is particularly focused on the policy it issued on Zohar II 2005-1, Limited ("Zohar II") collateralized debt obligation ("CDO") (the "Zohar II Notes"), which mature on January 20, 2017 (the "Zohar Maturity Date"), and for which MBIA Insurance Corporation had $770 million of insured gross par outstanding as of September 30, 2016. According to the sponsor and former collateral manager of Zohar II (the "Zohar Sponsor"), the assets of Zohar II include loans made to, and equity interests in, companies that the Zohar Sponsor purports to control (the "Zohar II Collateral"). MBIA Insurance Corporation expects that on the Zohar Maturity Date, it will be required to pay a claim under its policy for the Zohar II Claim. MBIA Insurance Corporation does not expect to have sufficient liquidity to pay such claim on the Zohar II Notes unless it arranges third-party financing to enable it to pay the claim.

MBIA Insurance Corporation continues to pursue strategies to restructure the Zohar II Notes and/or to increase its liquid assets to ensure that it has sufficient liquidity to pay any claims that could be made on its policy insuring the Zohar II Notes, including the sale of MBIA UK Insurance Limited ("MBIA UK"). In September of 2016, MBIA Insurance Corporation announced that its wholly-owned subsidiary, MBIA UK (Holdings) Limited, entered into an agreement to sell MBIA UK to Assured Guaranty Corp. ("Assured"), a subsidiary of Assured Guaranty Ltd. (the "Sale Transaction"). The Sale Transaction consists of the transfer of Zohar II Notes to the Company with an aggregate outstanding principal amount of approximately $347 million ("Assured Zohar II Notes"), in exchange for the shares of MBIA UK and a cash payment to Assured of $23 million. The Sale Transaction is subject to certain closing conditions, including the receipt of regulatory approvals from the Prudential Regulation Authority ("PRA"), the Financial Conduct Authority ("FCA") of the United Kingdom ("U.K."), the New York State Department of Financial Services ("NYSDFS") and the Maryland Insurance Administration.

MBIA Insurance Corporation is currently seeking to arrange third-party financing to increase its liquid assets to ensure that it has sufficient liquidity to pay the Zohar II Claim. MBIA Insurance Corporation's ability to arrange such financing, however, is constrained, and there is no assurance that it will be able to secure financing on acceptable terms. MBIA Insurance Corporation believes that any third-party financing will require approval by the NYSDFS. MBIA Insurance Corporation anticipates that the approval by the NYSDFS of the sale of MBIA UK, described herein, and of any third-party financing, if granted, would be based on (among other things) the NYSDFS concluding that MBIA Insurance Corporation will successfully execute its strategies to meet its obligations on the Zohar II Notes in a manner acceptable to the NYSDFS.

MBIA Insurance Corporation believes that if the NYSDFS concludes at any time that MBIA Insurance Corporation will not be able to satisfy its obligations under the Zohar II Notes on terms satisfactory to the NYSDFS, while maintaining sufficient assets to readily pay other policyholder claims, the NYSDFS would likely put MBIA Insurance Corporation into a rehabilitation or liquidation proceeding under Article 74 of the New York Insurance Law ("NYIL") and/or take such other actions as the NYSDFS may deem necessary to protect the interests of MBIA Insurance Corporation's policyholders. The determination to commence such a proceeding or take other such actions is within the exclusive control of the NYSDFS. The NYSDFS enjoys broad discretion in this regard, and any determination they may make would not be limited to consideration of the matters described above. No assurance is given as to what action, if any, the NYSDFS may take. MBIA Insurance Corporation has also commenced preparing contingency plans with respect to a potential rehabilitation proceeding in the event that it is unable to restructure the Zohar II Notes or arrange financing to pay the amounts due on the Zohar II Notes on the Zohar Maturity Date, in each case on terms acceptable to MBIA Insurance Corporation.

In the event that MBIA Insurance Corporation makes any payment in respect of the Zohar II Notes, it will be entitled to reimbursement of such payment plus interest. MBIA Insurance Corporation believes that the primary source of such reimbursement will come from the liquidation of the Zohar II Collateral.

In addition, MBIA Insurance Corporation insured the class A-1 and A-2 notes (the "Zohar I Insured Notes") issued by Zohar CDO 2003-1, Limited ("Zohar I"), a high yield corporate CDO, the assets of which include also include, among other things, loans made to, and equity interests in, companies purportedly controlled by the Zohar Sponsor (all the assets of Zohar I, the "Zohar I Assets"). The Zohar I Insured Notes matured on November 20, 2015 and, after Zohar I failed to pay the amounts due on the Zohar I Insured Notes, MBIA Insurance Corporation paid a claim of $149 million on such Zohar I Insured Notes. As a result, MBIA Insurance Corporation is entitled to seek reimbursement of such claim plus interest and expenses (the "MBIA Zohar I Claim") from Zohar I and/or to exercise certain rights and remedies to seek recovery of such claim. In connection with the exercise of its rights and remedies, MBIA Insurance Corporation has directed the trustee for Zohar I to commence an auction (the "Auction") of all of the Zohar I Assets. All bids in the Auction are scheduled to be submitted by no later than November 29, 2016. MBIA Insurance Corporation has the right to submit a credit bid in the Auction for some or all of the Zohar I Assets up to the amount of the MBIA Zohar I Claim (the "MBIA Credit Bid"). In the event that any cash bids submitted in the Auction exceeds the MBIA Credit Bid, the Zohar I Assets will be sold for cash, and the cash will be applied pursuant to the Zohar I indenture priority of payments and the amounts remaining after payment of any senior expenses will be distributed to MBIA Insurance Corporation as reimbursement for the MBIA Zohar I Claim. In the event the MBIA Credit Bid is the highest bid submitted in the Auction, the Zohar I Assets will be transferred to MBIA Insurance Corporation in satisfaction of the MBIA Zohar I Claim.

While MBIA Insurance Corporation will seek to recover any payments it makes (plus interest and expenses) with respect to the Zohar I Notes and the Zohar II Notes, there can be no assurance that the value of the Zohar I Assets and/or Zohar II Assets will be sufficient to permit MBIA Insurance Corporation to recover all or substantially all of any such payments.

Item 1A. Risk Factors (continued)

Given the separation of MBIA Inc. and MBIA Corp. as distinct legal entities, the absence of any material intercompany lending agreements or cross defaults between the entities, and the lack of reliance by MBIA Inc. on MBIA Corp. for the receipt of dividends, we do not believe that a rehabilitation or liquidation proceeding with respect to MBIA Insurance Corporation would have any significant liquidity impact on MBIA Inc. or result in a liquidation or similar proceeding of MBIA UK or MBIA Mexico. For similar and additional reasons, we believe that MBIA Corp. does not provide significant economic value to MBIA Inc. and its shareholders. Refer to the "Liquidity – MBIA Corp. Liquidity" section for additional information on MBIA Corp.'s liquidity position. In the event of an MBIA Insurance Corporation rehabilitation or liquidation proceeding, the Company may be subject to, among other things, the following:

- Medium-term notes ("MTNs") issued by MBIA Global Funding, LLC ("GFL"), which are insured by MBIA Insurance Corporation, would accelerate. To the extent GFL failed to pay the accelerated amounts under the GFL MTNs, the MTN holders would have policy claims against MBIA Insurance Corporation for scheduled payments of interest and principal. MBIA Inc.'s payment obligations regarding the GFL MTNs are not subject to acceleration under a regulatory proceeding of MBIA Corp.;
- An MBIA Insurance Corporation rehabilitation or liquidation proceeding is expected to accelerate certain investment agreements issued by MBIA Inc., including, in some cases, with make-whole payments. The investment agreements are fully collateralized with high quality collateral, which is expected to be sufficient, upon liquidation, to repay the amounts due on the related investment agreements. In the event liquidation of the collateral is insufficient, MBIA Inc. will be required to make up any shortfall, which would reduce MBIA Inc.'s liquidity resources. To the extent MBIA Inc. fails to pay the accelerated amounts under these investment agreements or the collateral securing these investment agreements is insufficient to pay the accelerated amounts due, the holders of the investment agreements would have policy claims against MBIA Insurance Corporation;

Item 1A. Risk Factors (continued)

- Credit default swap ("CDS") contract counterparties may seek to terminate CDS contracts insured by MBIA Insurance Corporation and make market-based damage claims (irrespective of whether actual credit-related losses are expected under the underlying exposure), which, based on MBIA Corp.'s estimates, could aggregate up to $140 million as of September 30, 2016. The CDS counterparties could assert that the mark-to-market claims are higher than those estimated by MBIA Corp. Counterparties on other insured derivative contracts may also seek to terminate such contracts and make claims;
- In the event of a rehabilitation or liquidation proceeding, MBIA Insurance Corporation would continue to be included in the MBIA Inc. consolidated federal income tax return. As a result of such a proceeding, it is possible that MBIA Insurance Corporation may generate taxable income in the future, which would be applied against and reduce the Company's net operating loss;
- The rehabilitator or liquidator would replace the Board of Directors of MBIA Insurance Corporation and take control of the operations and assets of MBIA Insurance Corporation (subject to, with respect to MBIA UK, regulatory oversight and related controls provided by the PRA and FCA, which would stay in effect following such occurrence), which would result in MBIA Inc. losing control of MBIA Insurance Corporation and possible changes to MBIA Insurance Corporation's strategies and management; and
- An MBIA Insurance Corporation rehabilitation or liquidation proceeding may impose additional costs and/or potential liabilities on MBIA Inc. In addition, MBIA Insurance Corporation would be subject to significant additional expenses arising from the appointment of a rehabilitator or liquidator, as receiver, and payment of the fees and expenses of the advisors to such rehabilitator or liquidator.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On October 28, 2015, the Company's Board of Directors authorized the repurchase by the Company and its subsidiaries of up to $100 million of its outstanding shares under a new share repurchase authorization. As of September 30, 2016, there was no remaining authorized capacity under the October 28, 2015 repurchase program.

On February 23, 2016, the Company's Board of Directors authorized the repurchase by the Company and its subsidiaries of up to $100 million of its outstanding shares under a new share repurchase authorization. As of November 2, 2016, $88 million remained available under this new program. The table below presents repurchases made by the Company in each month during the third quarter of 2016:

Month	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Amount That May Be Purchased Under the Plan (2) (in millions)
July	23,508	$ 8.25	-	$ 88
August	855	8.08	-	88
September	888	7.63	-	88
	25,251	$ 8.22	-	$ 88

(1) - 22,652 shares were repurchased by the Company in open market transactions for settling awards under the Company's long-term incentive plans and 2,599 shares were purchased in open market transactions as investments in the Company's non-qualified deferred compensation plan.

(2) - On February 23, 2016, the Company's Board of Directors authorized the repurchase of common stock up to $100 million under a new share repurchase program.

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Item 6. Exhibits

+31.1.	Chief Executive Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
+31.2.	Chief Financial Officer - Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1.	Chief Executive Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2.	Chief Financial Officer - Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
+101.	Additional Exhibits - MBIA Inc. and Subsidiaries Consolidated Financial Statements and Notes to Consolidated Financial Statements from the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016, formatted in XBRL.

+ Filed Herewith

* Furnished Herewith

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MBIA Inc.
Registrant

Date: November 8, 2016

/s/ Anthony McKiernan
Anthony McKiernan
Chief Financial Officer

Date: November 8, 2016

/s/ Douglas C. Hamilton
Douglas C. Hamilton
Controller (Principal Accounting Officer)

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Section 2: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Joseph W. Brown, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's third quarter of 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Joseph W. Brown
Joseph W. Brown
Chief Executive Officer
November 8, 2016

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Section 3: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Anthony McKiernan, certify that:

1. I have reviewed the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report");
2. Based on my knowledge, this Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Report;
3. Based on my knowledge, the financial statements, and other financial information included in this Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this Report;
4. The Company's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Report based on such evaluation; and
   (d) disclosed in this Report that there were no changes in the Company's internal control over financial reporting that occurred during the Company's third quarter of 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and to the audit committee of the board of directors:

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

/s/ Anthony McKiernan

Anthony McKiernan
Chief Financial Officer
November 8, 2016

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Section 4: EX-32.1 (EX-32.1)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph W. Brown, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph W. Brown

Joseph W. Brown
Chief Executive Officer
November 8, 2016

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Section 5: EX-32.2 (EX-32.2)

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of MBIA Inc. (the "Company") on Form 10-Q for the period ending September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Anthony McKiernan, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Anthony McKiernan

Anthony McKiernan
Chief Financial Officer
November 8, 2016

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